DRUG STORE NEWS

THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART ONE

FAMILY
HEALTH AIDS
COSMETICS
ARMACY

Retail drug sales rise 9% to $47 billion

8

C.E. Lesson: ACPE
Pharmacological treatment of GI ulcers—p. 185

NACDS Overview:
Chains and HQ focus on future growth—p. 69

Seminar:
DrSN panel discusses computer technology—p. 23

DRUG STORE NEWS®

Vol. 8/No. 10 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. April 28, 1986

Eckerd group closes in on buyout

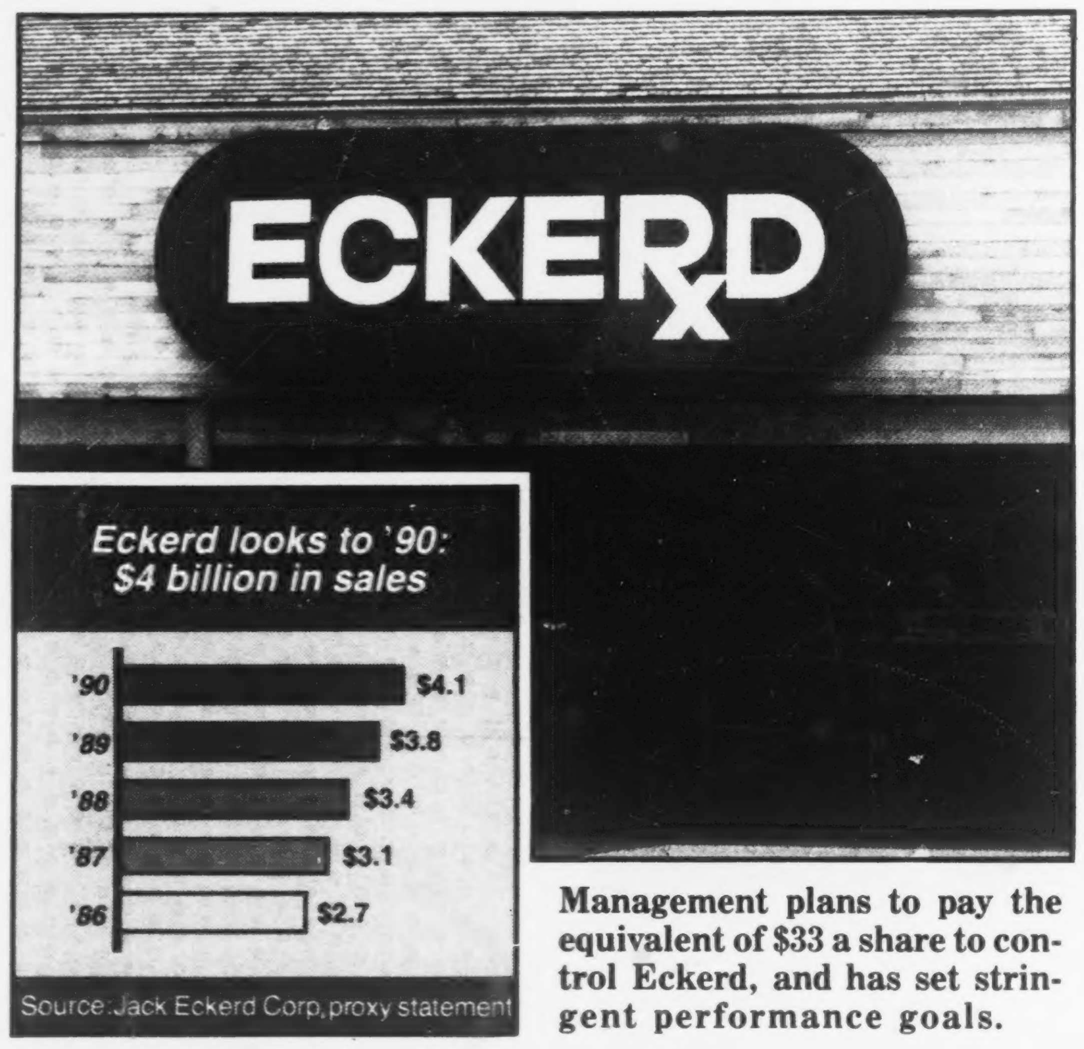
Will management be able to rescue the Jack Eckerd Corp. from its recent depression? Can they do it fast enough to avoid being forced to sell off large blocks of stores in underperforming markets?

At presstime, opinions on these questions were divided. Management has said consistently that Eckerd's only loss last year was due to a one-time writeoff and not to a failure by the drug chain. They remained staunch in their assertion that their gamble was "minimal."

News Analysis

"We are a profitable company," said one management source, "and we aren't facing any cash flow problems. If we didn't have that $61 million

See **Analysis,** *page 192*



Eckerd looks to '90: $4 billion in sales

Source: Jack Eckerd Corp, proxy statement

Management plans to pay the equivalent of $33 a share to control Eckerd, and has set stringent performance goals.

$1.4B deal 'fair' to stockholders

By Liz Parks

CLEARWATER, Fla. — Wall Street analysts are expecting that stockholders will approve the leveraged buyout of the Jack Eckerd Corp. later this week.

Analysts said the $1.4 billion deal is "fair"—both for stockholders and for investors, who include 30 key members of Eckerd's management.

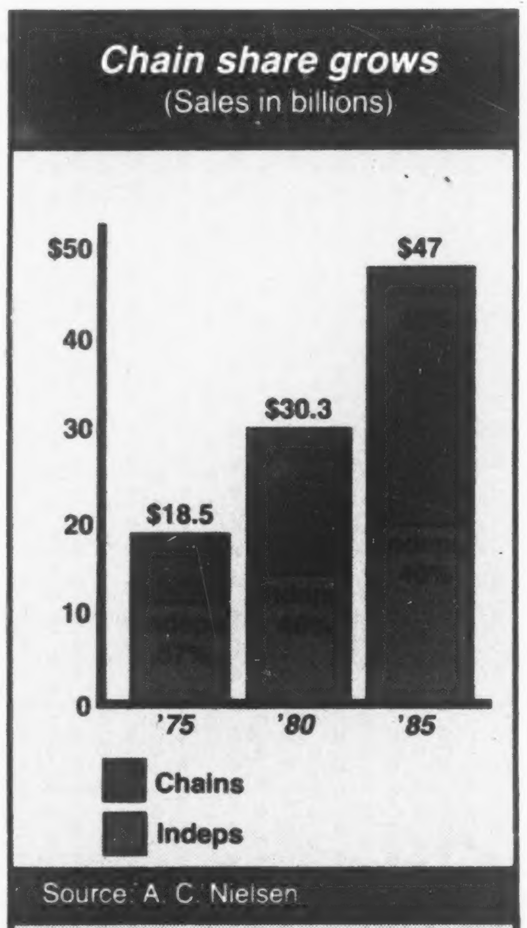
See related story, page 6

The big question now, said analysts, is whether the new owners can make a privately run Eckerd "realize its potential."

Technical delays involving

See **Eckerd,** *page 192*

Chain share grows
(Sales in billions)



Source: A. C. Nielsen

As usual, chain drug stores fared better than independents in 1985. See *Drug Store News'* 1986 Annual Report, starting on page 75.

Arbor goes public to generate $14 million-plus for expansion

By Al Heller

TROY, Mich. — Arbor Drugs seeks to raise $14 million-$17 million in an initial public offering, primarily to fund expansion by 12 to 14 new stores in 1986 and reduce debt.

Four new stores will mark the 48-store chain's first venture outside Michigan markets into North and South Carolina.

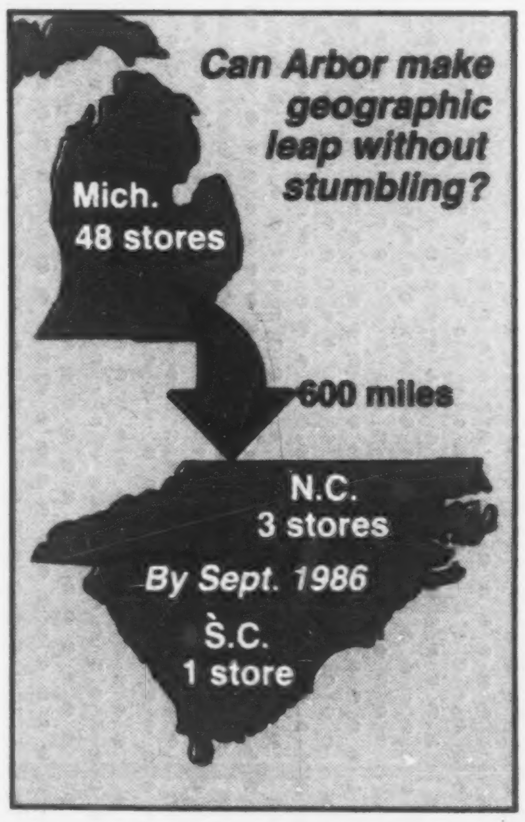
Arbor will offer 900,000 shares at $16-$19 each as part of a total two million share public offering, in which chairman and president Eugene Applebaum and executive vp Markus Ernst would dispose of more shares than the company. They'll retain control of Arbor, however, holding 67% of shares, according to a preliminary prospectus dated March 28.

The offering is being underwritten by Salomon Brothers, Drexel Burnham Lambert and William Blair & Co.

It's rare when a retail drug chain goes public today, particularly with the lowest prime rate (9%) in seven years. In contrast, Eckerd, Revco, Snyder and Dart have gone private in recent years or are considering it.

Arbor, however, wants to enter the Carolinas fast and already carries $6.4 million in debt by having opened 18 stores in the past 33 months. The preliminary prospectus cited "high population growth markets" in parts of both states. Arbor plans to add three drug stores in Charlotte, N.C., and one in Myrtle Beach, S.C., by September.

They'll generally conform to Arbor's 10,500-sq.-ft. prototype and be equipped with the Arbortech pharmacy computer system, like the rest of the chain. Arbor isn't yet committing to further expansion in the Carolinas, preferring to watch performance first.



See related story, page 6

The four Carolina stores will be serviced by Arbor's sole 60,000-sq.-ft. distribution center (DC) in Troy, Mich., which currently handles 70% of merchandise sold chainwide.

Further unspecified store growth could prompt Arbor to more than double total DC space to as much as 150,000 sq. ft. "within two to three years," the document added.

Most of Arbor's new stores will be in southeastern Michigan to fortify the chain's presence here and strengthen advertising and distribution

See **Arbor,** *page 192*

S.P.F. numbers score big biz in tanning products See page 17

Scanning imposes structure on store operations See page 30

14
PHARMACY

Big Bear's unusual configuration surrounds pharmacy with meat, deli and frozen foods.

Big Bear goes prowling for pharmacy customers

ESCONDIDO, Calif. — If Big Bear's first pharmacy in its 42-year history is successful, it won't be a fluke. The San Diego-based food chain, operating 30 supermarkets, is firing the pharmacy bullet while trying to dodge a fusillade of competition.

There are 22 pharmacies in this community of 135,000, located 30 miles north of San Diego, and they include these chains: Thrifty, Longs, Medicine Shoppe, Sav-On, Med-Rx, Gemco, and Vons Value Centers. Coming soon: Fedco, the membership discount department store known for its high-volume script fills.

Three of the chains will be Big Bear-hunting at close range: Vons is 100 yards away, Sav-On opens across the street in June, and Fedco opens two blocks away in the vacated Sears building. On the second tier of encroachment are Longs and Thrifty, 1.3 miles away.

But no one can say that Big Bear is taking it sitting down. They came out swinging.

At the store opening, Big Bear offered to meet or beat

See **Bear,** *page 192*

Arbor Drug set to invade Dixie; to open 3 units in N.C., 1 in S.C.

By Dave Vaczek

CHARLOTTE, N.C. — Arbor Drugs plans to open three stores here and a fourth in South Carolina in its first drive on a market outside of its Michigan home base.

The Troy-based chain has scheduled summer openings for the units in Charlotte, a "second generation" sunbelt town that has beckoned recent growth from chains including Kerr Drug Stores and Drug Emporium.

A late summer unveiling of a fourth store in the coastal resort town of Myrtle Beach, S.C., will cap the southern probe, which will be funded with proceeds from Arbor's initial stock offering.

"No one has a strong purchase on the market," said an Arbor spokesman of Charlotte, which anchors a seven-county metro area that is undergoing a surge in business and residential expansion.

Arbor decided to go south based on an analysis of the region's demographics, the competitive environment, and site availability, the company said in its stock sale preliminary prospectus.

Eckerd is the leader in Charlotte with about 30 stores, followed by Revco with 15 and Rite Aid with five. Opening its first store last May, the Raleigh-based Kerr Drug is now building its fourth, with two more leases under negotiation, according to Kerr vp-real estate Chris Woody.

Drug Emporium is building a second unit, Kroger operates eight food/drug combos, and A&P and Winn-Dixie have combo units under construction.

Observers say that while the market seems understored now, drug retailers are already jostling for hot sites, notably in upscale suburbs south of town.

"It's a growing market, but it's a heck of a lot more crowded than it used to be," says Tim Dargusch, who owns the Drug Emporium franchise.

In one three-quarter mile stretch along Highway 51, for example, Dargusch said at least six chains are back to back.

"It's going to be interesting to see what happens," he said. Charlotte has been enjoying record investment, as it attracts new businesses and workers from outlying counties, where the textile industry is in decline.

In its prospectus, Arbor said its further growth will depend on the success of the four stores. The units are all the typical Arbor size of 10,000 to 12,000 sq. ft. and will resemble the prototype closely in layout and merchandise, a spokesman said, with the pharmacy on the back wall and a broad center aisle for promotional displays.

A 10,000-sq.-ft. store is under construction in the Hickory Grove shopping center adjacent to an A&P in east Charlotte. A second unit is a renovation to an existing 12,000-sq.-ft. store on South Sharon and Amity roads.

The Myrtle Beach unit will be a newly built 10,000-sq.-ft. unit.

Arbor will manage the operations as it would a Michigan region, with a district manager from Detroit overseeing locally hired store managers and personnel, a spokesman said.

Distribution will resemble the Michigan operations, except warehouse-delivered goods will be on a 10-day cycle for the Carolina stores. Also, drugs, among the 70% of products Arbor warehouses, may be purchased locally, an Arbor source said.

Warehouse manager John Baran confirmed that the Carolina stores will need sharper ordering practices with a 10-day cycle. Arbor is comfortable with the cycle, since the Michigan stores were serviced every 10 days four years ago, before a seven-day cycle was adopted.

Contac capsules, tablets will be available this fall

PHILADELPHIA — At an informal meeting here between the press and SmithKline Beckman's consumer division, Menley & James, president Bill Learnard announced that Contac will be launched as a new product in two dosage forms, capsules and tablets, in time for the fall cold season.

"Consumers will have a choice, and it will be treated like a new product," said Learnard in reference to the 25-year-old cold remedy, which was recalled in March following the discovery of warfarin, a rat poison, in Contac capsules in Florida and Texas.

The new capsules Learnard alluded to will probably be fitted with one of the "tamper-evident" packaging technologies. An extensive public education campaign is also planned.

Learnard said he will announce to the trade the specifics of the relaunch by mid May.

This development follows the announcement by American Home Products that it will launch an extensive campaign for a new caplet form of Anacin and Anacin-3 (acetaminophen).

How the Eckerd LBO will be financed

Source of funds	(In thousands of dollars)
Revolving credit loans	$ 690,000
Discount subordinated debentures	179,035
Subordinated debt	260,417
Preferred stock	75,000
Class A and nonvoting stock	116,802
Class B stock	500
Liquidation of net assets from discontinued operations	8,323
Cash and cash equivalents of JEC	21,664
TOTAL FINANCING	$1,351,741

Source: The Jack Eckerd proxy statement, April 1, 1986.

Eckerd management to own 13.7% in LBO

If merger is consolidated as planned

Assuming that stockholders will approve the pending leveraged buyout of the 1,588-unit Jack Eckerd Corp., this is what the change will mean for Stewart Turley and the other executive managers involved in the buyout:

Turley, chairman and president of the Eckerd Corp., will own 2.69% of Eckerd Holdings Inc., the company that is acquiring the Eckerd Corp.

John Boyle, Eckerd's senior vp-finance and administration, will receive 1.19% of holdings; Harry Lambert, president of Eckerd Drug, will receive another 1.19%, and the remaining members of the management group involved in the buyout will receive a total of 8.63% of the shares.

Therefore, when the merger is consolidated, the Eckerd management group will own approximately 13.70% of the outstanding shares of Holdings, while Merrill Lynch Investors will own 81.42%, and the affiliates of the banks that are providing the financing will own the rest, about 4.88%.

In addition, after the merger, the Jack Eckerd Corp. plans to purchase about 1.4 million shares (worth about $5.4 million) of Holdings common stock from Merrill Lynch Investors and contribute it to the employee profit-sharing plan for the benefit of Eckerd employees. Holdings has also agreed to contribute additional 720,000 shares of Class A stock over a five-year period if Holdings and its subsidiaries meet their operating criteria.

If all the additional shares are contributed to the profit-sharing plan, the plan will own approximately 6% of the common equity of Holdings on a diluted basis.

Buckley is named *DrSN* editor

Parks to develop new editorial and research projects

NEW YORK — Jay Forbes, publisher of *Drug Store News*, announced that Bruce Buckley has been promoted to editor and Liz Parks has been reassigned and given expanded duties as special projects editor of the publication.

Forbes said the moves "are in line with our strategic goals of maximizing the publication's strengths as well as the talents of all individuals."

In her new role, Parks is being called on"to maximize the excellent outside contacts she has developed, working with many outside column contributors and initiating new editorial and research projects now on the drawing board," Forbes said.

Parks, editor of *Drug Store News* for the past three years, is a veteran journalist. Before coming to the publication, she was editor of *Chain Store Age, Supermarkets*, and of *FM (Food Merchandising for Non-food Retailers)*. She has also served as executive editor of *Nation's Restaurant News*, all Lebhar-Friedman publications.

Buckley, who had been executive editor of *Drug Store News*, has been with the publication for five years. In his long career as a newspaper journlist, he has been editor of *Supermarket Business* and of *Health Care Week*, a weekly newspaper covering the medical field.

Forbes said the reassignments come at a time when *Drug Store News* is meeting or exceeding its strategic goals in all areas.

"Our subscriber numbers and retailer renewal rates are both at an all-time high, and our advertising continues to gain in market share," he said. "With these new assignments, we foresee continuing to meet and exceed our long-term objectives."

Bruce Buckley and Liz Parks are taking on new, expanded roles at *Drug Store News*.

INDEX

Annual 75
Beauty Beat 20
Classified 53
Clinical Notebook 177
C. E. Lesson 185
Computer Seminar 23
Editorial 8
Eye on the Marketplace 17
Financial 10
Focus on People 55
HealthWorks 174
Independent Focus 12
Inside Pharmacy 173
Manager Training 32
People in the News 64
Product Update 161
Rx/OTC product update 184
Technology Today 30

Drug Store News (ISSN 0191-7587), is published biweekly—every other Monday, monthly in December plus extra Pharmacist's Reference issue in April, as well as an extra Annual Pharmacists Guide to OTC Patient Counseling in October, by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscription rates: Infield subscribers, retailers and wholesalers, one year $19.50; two years $35. Out-of-field subscribers, manufacturers, schools, libraries and all others, one year $39. Single copy rate $2. Foreign subscriptions: Airmail only $125 per year.

Second-class postage paid at New York, N.Y. and additional mailing offices. Copyright © 1986 by Lebhar-Friedman Inc. All rights reserved. POSTMASTER: Please send address changes to Subscription Dept., Drug Store News, 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079. For change of address six weeks notice to Subscription Dept., 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079 is requested. Give old and new address and zip code. If possible, enclose address portion from cover on previous issue.

Vol. 8, No. 10 - April 28, 1986

FINANCIAL

Food-service units shuttered

Thrifty Corp. sales climb 5.5%, net income increases to $19M

LOS ANGELES — Thrifty Corp. reported increased sales and income for the second quarter ended Feb. 28 and the first six months.

Preliminary figures showed a 5.5% increase in sales for the six months, from $699.6 million in 1985 to $738.1 million. Second quarter sales rose 4.3% from $391.6 million to $408.6 million in fiscal 1986. Fiscal 1985 sales include sales of food-service units, all of which were closed in the last few weeks of the year.

Unaudited consolidated net income after taxes for the six months was $19 million compared with $17.9 million in the previous year, a gain of 6.4%. Second quarter net income was $14.9 million compared with $14.1 million for the comparable quarter, up 5.3%.

Earnings up

Second quarter earnings per share, based on the average number of common shares outstanding, were 74¢ in the second quarter, compared to 1985's 71¢. Year-to-date earnings were 95¢ vs. 90¢ last year. Both years reflect the use of LIFO accounting.

In January, the Board of Directors increased the regular quarterly dividend from 15¢ to 16¢ a share, the 11th dividend increase in 10 years.

Earnings of Crown Book Corp., 34% owned by Thrifty, and the loss of Trak Auto West Inc., 50% owned by the chain, are included in the financial results, based on the equity method of accounting. The chain said their combined net loss did not have a significant impact on earnings results.

Walgreens hits $1B quarter

DEERFIELD, Ill. — Walgreens posted its first $1 billion quarter with sales up 14.5% from $875.3 million to $1.002 billion for the second quarter ended Feb. 28.

Earnings increased 15% to $35.6 million, or 58¢ per share, compared to $31 million or 51¢ a share, last year.

Six-month sales rose 14.4% to $1.8 billion, with net earnings to date up 13.5% to $52.9 million, or 86¢ a share.

Charles R. Walgreen III, chairman, said 77 new drug stores were opened in the first six months, including the 26 acquired Ribordy Drugs. In 1985, the drug store division increased market share in 41 of the chain's top 50 markets, Walgreen said.

Walgreen said that in the past three years the chains' sales growth in all of its major markets exceeded total drug store sales growth in those markets by almost 10%.

"This reflects our strategy of increasing our presence in existing markets, while continuing to seek new market possibilities, mainly through acquisitions," Walgreen said.

Drug store division sales were up 15.1% for the quarter, and 15% for the first six months.

		STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION				
		Drug Store News Apr. 7, 1986							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Preceding 12 Months Change					Indicated Dvd. rate						Last Fiscal Year (Per Share)	
					Change		52-Week															Last Fiscal Year				
Name	Symbol	High	Low	Close	Amt	Pct	High	Low	Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days	Last Fiscal Year	Amt.	Pct	5-Year Annual Growth Rate	Profit Margin	Latest P/E Ratio	Amt.	Yield	Last X-Dvd. Date	Revenue	Earnings	Current Ratio	Long Term Debt	Common Stock Equity
-	-	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	-	$	%	-	$ Mil	$ Mil	-	$	$
Chain Store transactions																										
Am Stores	ASC	60.63	57.63	58.50	-1.50	-2.50	68.25	48.63	-.46	.04	-1.61	-20.50	4.11	-1.60 F	-28.0	30.0	1.1	14.2	.84	1.4	03-24-86	13889.5	154.5	1.2	37.93	21.40
Begley Co	BGLY	22.50	21.50	21.50	-1.00	-4.44	23.50	15.50	-.15	.85	.31	-17.14	1.26	.50 N	42.7	10.0	1.1	12.9	.72	3.3	01-14-86	66.1	.7	1.7	13.77	18.84
Big B	BIGB	15.50	13.50	14.63	1.00	7.34	19.50	12.63	-.02	-.35	1.50	16.31	.61	-.07 F	-10.3	21.0	2.3	24.0	.00	.0	09-21-83	175.4	4.0	2.3	1.20	4.58
Drug Sys	DRGS	5.13	4.75	5.13	.38	7.89	6.13	3.75	.29	1.48	-1.12	41.36	.35	-.97 N	-100.0	NC	1.2	NE	.50	9.8	01-06-86	104.7	1.3	3.2	1.13	6.18
Eckerd, Jack	ECK	32.25	30.88	32.13	.75	2.39	32.25	20.00	-.09	1.09	4.10	21.18	-.22	-3.13 S	-100.0	NC	-.3	NE	1.04	3.2	03-03-86	2508.5	-8.3	1.6	2.64	14.49
Fay's Drug	FAY	11.13	9.75	10.00	-1.25	-11.11	11.75	8.00	-.22	-.48	.01	10.07	.20	-.42 F	-67.7	21.0	.6	50.0	.20	2.0	03-21-86	445.1	2.8	1.8	1.65	4.28
Genovese Drug	GDX	14.00	13.00	13.25	-.38	-2.75	14.38	9.13	-.21	.46	-2.67	-22.27	.73	-.30 F	-29.1	39.0	1.2	18.2	.20	1.5	04-08-85	233.2	2.9	1.7	2.06	5.73
Longs Drg Strs	LDG	32.75	29.88	31.50	1.25	4.13	32.75	24.75	.19	-.44	-2.55	-11.27	1.74	-.14 F	-7.4	8.0	2.5	18.1	.72	2.3	02-26-86	1480.8	37.7	2.1	.00	12.23
Medicare Glaser	MGCO	4.50	3.75	4.50	.00	.00	5.25	3.75	.29	4.18	7.28	82.11	.05	-.49 N	-100.0	NC	.2	NE	.00	.0	00-00-00	81.7	.2	2.2	3.58	3.52
Medicine Shoppe	MSII	25.13	24.38	24.38	-.63	-2.50	26.00	21.00	-.22	.13	-.56	8.98	.84	.16 Q	22.5	49.0	22.4	28.0	.00	.0	00-00-00	13.4	3.0	9.2	.00	5.08
Perry Drug	PDS	16.63	15.25	15.50	-1.13	-6.77	18.75	11.19	-.08	.26	-.14	.83	.98	.18 Q	22.2	16.0	1.8	15.7	.22	1.4	02-20-86	521.6	9.6	2.0	9.77	7.79
Revco Drug	RDS	34.63	33.38	33.75	-1.00	-2.88	35.25	23.13	.32	.96	-1.05	23.11	1.06	-1.01 N	-51.3	-6.0	1.6	35.2	.80	2.4	02-19-86	2395.6	38.9	1.7	1.22	12.48
Rite Aid Corp	RAD	31.13	27.75	28.25	-2.50	-8.13	32.25	21.50	-.03	-.85	.04	-21.44	1.52	-.17 F	-10.1	8.0	4.0	18.6	.58	2.1	01-13-86	1564.1	62.5	1.9	2.02	8.58
Thrifty Cp	TFD	29.88	27.25	27.50	-.75	-2.65	29.88	18.13	.30	-.96	1.77	3.35	1.60	.19 Q	13.3	16.0	2.3	17.0	.64	2.3	02-04-86	1404.9	31.9	1.7	5.86	6.85
Walgreen Co	WAG	34.25	30.00	31.88	-1.13	-3.41	34.75	22.50	.20	-.97	-.37	9.00	1.53	.13 Q	9.1	20.0	3.0	20.4	.50	1.6	02-11-86	3161.9	94.2	1.8	1.17	7.83
Wholesaler's transactions																										
Bergen Bruns	BBCA	34.50	31.38	33.63	-.25	-.74	37.25	23.69	-.49	1.44	3.70	2.21	1.82	.06 S	3.6	13.0	1.0	19.3	.32	1.0	01-28-86	2434.9	24.2	1.7	11.12	12.07
Bindley Wstn	BIND	11.63	11.00	11.00	-.63	-5.38	15.00	7.75	-.19	-.80	-4.23	37.29	.79	.06 F	8.2	23.0	.8	13.9	.00	.0	05-01-85	626.9	5.2	1.4	.08	5.46
Cardinal Distrb	CDIC	25.00	24.50	24.50	-.75	-2.97	25.25	14.22	.37	.43	-1.12	-12.48	.92	.42 N	46.7	NC	1.2	18.6	.08	.3	03-25-86	320.0	3.7	1.7	.85	8.04
Durr Fillauer	DUFM	14.75	14.50	14.50	-.25	-1.69	15.25	9.25	-.19	.48	.01	-53.97	.78	.04 F	5.4	13.0	1.4	18.6	.15	1.0	02-24-86	427.1	6.1	2.3	1.21	6.05
Ketchum	KCH	20.38	19.25	19.25	-.75	-3.75	23.25	14.06	-.62	-.53	-4.14	-53.02	.56	-.01 N	-2.2	NC	.2	43.8	.00	.0	09-23-85	273.7	.6	1.4	7.87	7.52
McKesson Cp	MCK	61.25	55.25	55.25	-3.00	-5.15	61.25	42.00	.06	-1.09	1.92	-7.99	3.60	.38 N	10.9	-1.0	1.3	14.2	2.40	4.3	02-25-86	4887.1	65.0	1.5	12.99	30.40
Moore Med	MMD	22.75	21.50	21.88	.50	2.34	24.25	12.31	-.07	.18	1.35	31.52	1.45	.43 F	42.2	17.0	2.5	15.1	.00	.0	05-23-85	147.9	3.7	3.3	2.45	5.25
Owens & Minor	OBOD	20.25	18.75	18.75	-.13	-.66	20.25	11.19	.39	-.93	1.70	-12.49	1.14	.19 F	20.0	18.0	1.2	16.4	.28	1.5	12-10-85	367.3	4.4	2.6	7.15	9.34
Manufacturer's transactions																										
Abbott Labs	ABT	86.75	78.75	81.63	2.88	3.65	86.75	49.50	.64	.28	-.23	6.03	3.88	.54 F	16.2	18.0	13.8	21.0	1.68	2.1	04-09-86	3360.3	465.3	2.1	3.70	15.64
Am Home Prod	AHP	79.88	74.00	76.00	.00	.00	80.00	54.75	.19	-.45	.80	17.51	4.70	.31 F	7.1	11.0	15.3	16.2	3.10	4.1	02-07-86	4684.7	717.1	3.4	.00	15.19
Baxter Travenol	BAX	19.13	18.00	18.63	-.25	-1.32	19.75	12.38	.03	1.15	.64	-16.17	.85	.64 F	304.8	-14.0	5.8	21.9	.40	2.1	03-11-86	2355.0	137.0	1.6	1.46	7.83
Block Drugs Co	BLOCA	23.75	22.75	22.75	-1.75	-7.14	26.25	14.81	-.65	-.24	-1.27	58.26	1.70	.22 N	13.6	12.0	10.5	12.4	.50	2.2	02-25-86	247.8	25.9	2.4	1.59	10.91
Bolar Pharm	BLR	22.38	19.50	20.25	-.75	-3.57	22.63	12.00	.46	-1.27	-.34	-7.13	.71	.10 F	16.4	22.0	17.7	28.5	.05	.2	02-24-86	38.4	6.8	7.5	.00	3.70
Bristol-Myers	BMY	76.13	70.00	70.88	-4.00	-5.34	76.13	53.63	.10	-.63	-1.08	15.48	3.86	.41 F	11.9	14.0	12.0	18.4	2.20	3.1	03-31-86	4444.0	531.4	2.5	.75	15.63
Carter-Wallace	CAR	61.88	58.25	58.75	-3.00	-4.86	62.00	31.38	.18	-.12	.64	-22.50	2.66	.86 N	32.8	21.0	5.9	16.9	.60	1.0	02-10-86	348.8	20.7	2.2	1.53	23.37
Forest Labs	FRX	39.38	35.00	35.50	-1.75	-4.70	39.38	17.63	.59	-.35	-3.14	-19.00	.73	.40 N	70.2	16.0	17.4	36.6	.00	.0	01-14-83	24.1	4.2	4.5	.22	5.90
ICN Pharm	ICN	14.25	12.25	12.50	-1.25	-9.09	15.63	8.50	-.39	-.80	-.45	22.36	-2.10	-2.10 F	NC	NC	-29.1	NE	.00	.0	00-00-00	62.8	-18.3	2.7	5.08	3.00
Key Pharm	KPH	18.00	16.00	16.88	.38	2.27	18.00	7.13	.41	-.35	-5.07	1.14	-.02	-.63 F	-100.0	NC	-.5	NE	.00	.0	09-09-85	152.1	-.8	3.4	2.52	1.60
Lilly Eli Co	LLY	76.25	68.63	69.88	1.63	2.38	76.25	37.50	.86	-.91	3.61	4.39	3.69	.31 F	9.2	11.0	15.8	18.9	1.80	2.6	02-07-86	3270.6	517.6	1.9	1.71	17.12
Lee Pharm	LPH	17.38	14.50	16.00	-1.00	-5.88	18.75	4.63	.22	1.45	-1.84	-5.45	.40	.17 Q	70.8	NC	6.6	39.0	.00	.0	00-00-00	12.2	.8	3.1	.00	2.49
Leiner P Nutri	PLIN	14.75	13.25	14.75	1.75	13.46	14.75	8.25	.16	2.05	4.19	6.29	.78	-.10 N	-12.5	NC	4.1	21.1	.00	.0	00-00-00	53.6	2.2	2.5	.00	4.90
Marion Labs	MKC	63.25	56.50	57.88	-5.13	-8.13	63.75	29.13	.17	-1.08	-1.03	31.45	.94	.42 S	55.3	38.0	12.2	49.0	.36	.6	03-14-86	295.7	36.2	2.1	.00	4.17
Merck & Co	MRK	177.38	158.75	163.50	2.25	1.40	177.38	98.25	.35	-1.31	2.72	-10.98	7.58	.87 F	13.0	7.0	15.2	21.6	3.60	2.2	02-27-86	3547.5	539.9	1.9	2.43	37.54
Morton Thiokol	MTI	36.13	33.75	34.13	-1.75	-4.88	40.50	29.63	-.26	.20	-.28	-38.35	2.50	.37 S	16.0	22.0	6.7	12.7	.70	2.1	02-14-86	1832.3	122.8	1.8	3.25	15.00
Mylan Labs	MYLN	22.88	21.50	21.63	-.25	-1.14	26.00	13.50	1.11	-.56	1.55	-5.00	.52	.41 N	100.0	71.0	23.3	26.4	.10	.5	12-27-85	53.6	12.5	5.9	.09	1.22
Newport Pharm	NWPH	7.63	6.63	6.63	-1.13	-14.52	14.50	6.50	-.92	-1.56	-10.27	23.21	.05	-.08 N	-100.0	NC	6.7	NE	.80	12.1	05-23-85	9.0	.6	3.2	.21	.96
Par Pharm	PARP	17.00	16.00	16.25	-.50	-2.99	23.25	14.25	.04	-.63	-2.23	2.37	.47	.00 Q	.0	76.0	14.1	33.9	.00	.0	00-00-00	21.3	3.0	2.2	.92	2.33
Pfizer Inc	PFE	61.00	55.38	56.13	-2.63	-4.47	61.00	41.75	.23	-.57	-1.95	13.06	3.44	.36 F	11.7	16.0	14.4	16.3	1.64	2.9	01-27-86	4024.5	579.7	2.2	1.97	17.87
Reid Prov Labs	REID	11.00	10.50	10.88	.13	1.16	11.00	4.00	-.14	.98	-17.30	1.01	.13	.06 S	46.2	28.0	6.0	57.2	.04	.4	12-06-85	16.6	1.0	3.1	.02	.92
Robins, AH	QRAH	14.75	13.00	13.00	-1.38	-9.57	20.50	5.50	-.41	-.30	-2.74	23.97	2.53	20.97 F	NE	NC	8.7	5.1	.00	.0	11-19-84	706.1	61.4	1.7	.47	-5.23
Rorer Group	ROR	39.75	37.63	38.38	-.25	-.65	47.00	28.63	.34	.54	-1.21	-9.21	1.72	-.36 F	-17.3	2.0	10.9	22.3	1.12	2.9	02-04-86	338.1	36.8	1.9	2.18	11.07
Scherer RP Co	SCHC	12.75	12.00	12.38	-.25	-1.98	16.50	10.13	-.30	.54	2.76	3.16	-.43	-.96 N	NE	NC	-2.0	NE	.32	2.6	03-07-86	167.4	-3.4	1.7	4.07	9.72
Scher Plough	SGP	70.00	64.50	65.88	.88	1.35	70.00	42.25	.05	-.58	-.47	-1.60	3.77	.27 F	7.7	-2.0	10.0	17.5	1.80	2.7	02-03-86	1927.1	192.6	1.4	2.50	25.96
Squibb Corp	SQB	100.00	88.00	92.88	-1.38	-1.46	100.00	55.25	.19	-.50	3.71	-17.95	4.20	.52 F	14.1	25.0	11.1	22.1	1.76	1.9	02-14-86	2041.7	226.6	2.3	3.74	24.87
Sterling Drug	STY	46.00	42.50	42.75	-.88	-2.01	46.00	29.50	.20	-.41	-1.30	-4.12	1.83	-.54 F	-22.8	-1.0	6.3	23.4	1.20	2.8	02-12-86	1753.7	109.7	2.6	1.32	15.34
Syntex Corp	SYN	58.63	50.63	51.38	-6.25	-10.85	58.63	27.69	.20	-1.53	-.58	19.28	2.33	.79 S	39.3	14.0	15.8	18.3	1.20	2.3	12-16-85	948.5	150.0	2.1	2.68	9.40
Thompson Med	TM	16.38	15.00	15.50	-.50	-3.13	16.50	11.75	.10	1.23	2.19	3.79	1.18	-1.02 F	-46.4	10.0	8.1	13.1	.40	2.6	03-24-86	136.8	11.1	5.5	.00	7.43
Upjohn Co	UPJ	168.75	153.00	156.38	-3.88	-2.42	168.75	78.25	.15	-.66	1.63	4.01	5.67	.39 N	6.9	1.0	8.0	25.8	3.04	1.9	04-01-86	2179.1	173.3	1.7	12.47	37.00
Warner-Lambrt	WLA	57.88	50.75	51.50	-1.25	-2.37	57.88	33.75	.14	-.65	-1.05	-17.58	-4.05	-6.86 F	-100.0	NC	-9.9	NE	1.56	3.0	02-03-86	3200.1	-315.6	1.7	6.47	18.18

All data are based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

Footnotes:

NA - Not Applicable
NC - Not Calculable
NE - Negative Earnings
NM - No Meaningful Figure
Q - First Quarter
S - First 6 Months
N - First 9 Months
F - Fiscal Year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

DRUG STORE NEWS

THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART ONE

FAMILY
HEALTH AIDS
COSMETICS
ARMACY

Photos taken at Austin Drug, Long Island, N.Y.

Chain drug sales rise 11% in difficult year

Though drug store sales increased 9% to a record $47 billion in 1985, it was a difficult year. An era of easy growth and earnings ground to a halt. Most experts felt, however, that it was more of a pause than a permanent flattening of the industry's long upward growth curve.

As usual, chain drug stores fared better than independents. Chain sales rose 11% to $28.2 billion, while the 5% increase in independents' sales, to $18.8 billion, barely exceeded inflation, meaning no real growth at all in that segment.

The performance of both chains and independents was sapped by the growing retail muscle of nontraditional competitors like deep discounters; by the slowing of inflation, which in the past had provided easy sales and earnings gains, and by an overall softening in general merchandise sales.

Continued on page 76

THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PERFORMANCE

Pharmacy was the biggest growth department in drug stores, with sales rising more than 13% in 1985.

10-year sales trends
(in billions)

Year	Total industry	% change	Total chain	% change	Total indep.	% change
1985	$47.0	9%	$28.2	11%	$18.8	6%
1984	43.2	9	25.5	12	17.7	5
1983	39.7	10	22.8	11	16.9	8
1982	36.2	8	20.5	11	15.7	5
1981	33.4	10	18.5	12	14.9	8
1980	30.3	12	16.4	16	13.9	7
1979	27.2	12	14.2	17	13.0	6
1978	24.3	10	12.1	16	12.2	4
1977	22.2	8	10.4	14	11.7	4
1976	20.5	9	9.2	14	10.7	8

Chain sales are for companies with four or more stores

Source: A. C. Nielsen Co.

Continued from page 75

Balancing these negatives was the record performance of the pharmacy department. Most drug store companies racked up double-digit gains in pharmacy, with new, more expensive drugs and overall rising drug prices contributing to the growth. The industry as a whole gained more than 13% in pharmaceutical sales. It was the biggest advance of any drug store category. (More about that next issue in the Annual Report of the Chain Drug Industry, Part II.)

Some of the pharmacy gains could be attributed to a renewed emphasis on that department, as part of a general turning back to core categories and traditional drug store strengths. Computers helped boost productivity, of course, and some of those gains have been reinvested in raising the professional consulting image of pharmacists—a harkening back to a time when "doc" the corner druggist was an expert in everything from removing foreign bodies from the eye to recommending a cure for diarrhea.

Diversification slows

The "return to basics" movement could also be seen in the move by some drug chains to jettison their diversified holdings. Rite Aid, for example, sold off Circus World, Eckerd got rid of its VideoConcepts stores, and a number of other chains dropped out of the deep discount business. Interest in auto parts stores and home health care outlets remained high, however.

While analysts were generally bullish about long-term prospects for the retail drug industry, executives of the industry themselves seemed less sanguine. A year-end survey by *Drug Store News* uncovered a pool of anxiety about the economy in general and retail prospects in particular. This, despite higher employment, lower interest rates and greater consumer buying power.

But if executives on the whole seemed less than optimistic, individual companies were plowing ahead with plans to secure deeper market penetration, to open up new markets, to upgrade their assets with store closings and remodelings, to invest in new technology and to fend off competitive thrusts with heavier promotional firepower.

Consolidation on hold

Unlike past years, 1985 was marked by an almost total absence of major mergers and acquisitions; thus, the consolidation that has marked the chain drug industry for years was put on hold.

The biggest deal of the year was Walgreens' acquisition of Ribordy Drug, hardly a buyout of the magnitude of the previous year's blockbuster deals involving American Stores and Jewel Cos., K mart and Pay Less, Kroger and Hook Drug and Imasco and Peoples.

At the beginning of this year, Thrifty picked up two California chains, Drug King and Guild Drug, but those acquisitions also could scarcely be called seismic. At presstime, industry-watchers were still awaiting word on Medi Mart, the 67-store chain that was put up for sale by its parent, Stop & Shop. Speculation focused on Walgreens, which has been eying the Northeast as a target of opportunity.

Another chain that had been offered for sale, Super D, was pulled off the block by its parent, Malone & Hyde, the Memphis-based wholesaler and retailer. Malone & Hyde could not get its price.

LBO's get hot

While acquisition fever cooled, leveraged buyouts got hot. Dart began the movement more than a year ago, when a group of company executives and employees led by Al Towle and Steve Hansbrough borrowed against the assets of the mid-Atlantic drug chain and bought out Dart's shareholders, including the Haft family, for $160 million.

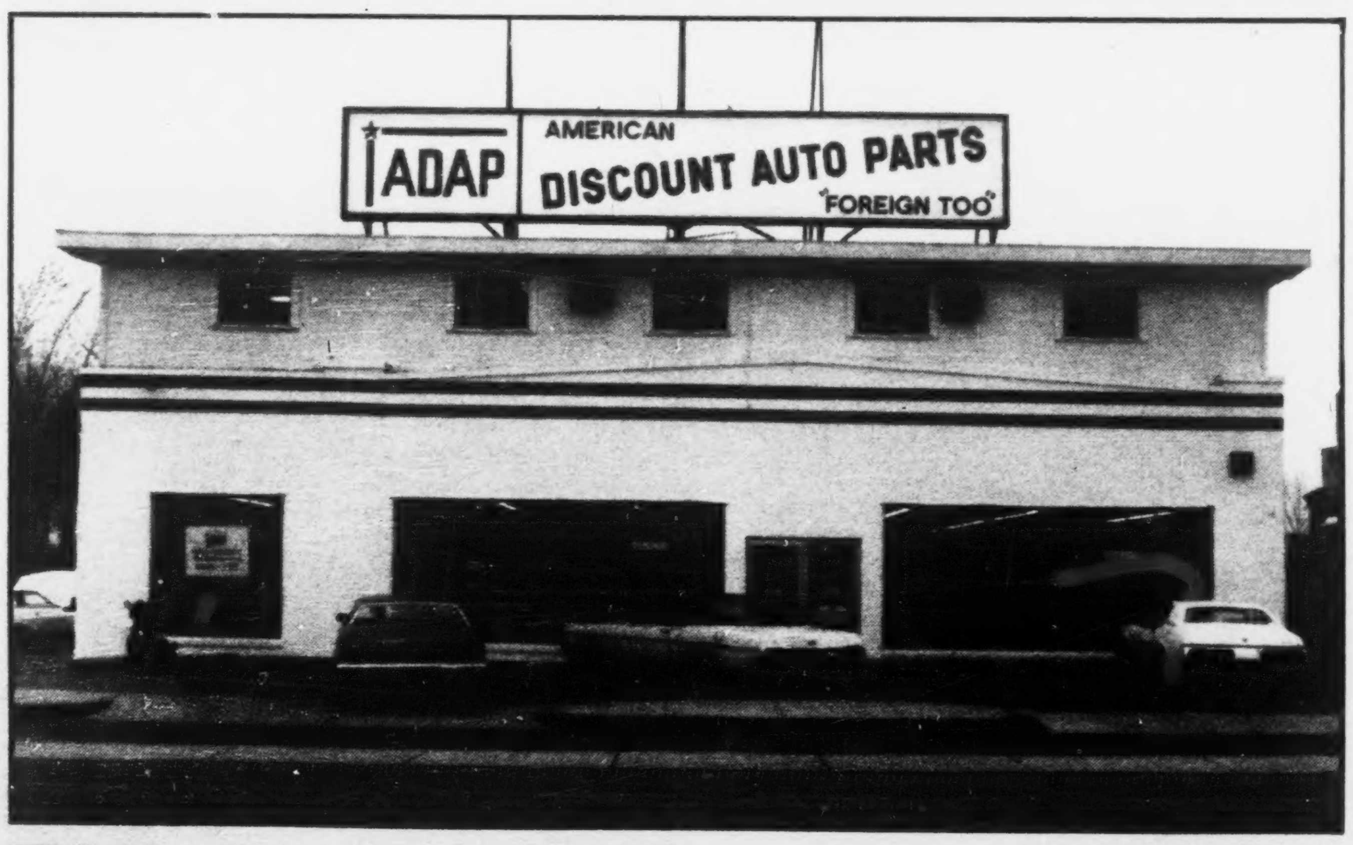
The next major chain to consider the lbo route was Eckerd. Once the most profitable drug chain in the industry,

Continued on page 78

Evolving character of the chain drug industry

	No. of companies			No. of stores		
Chain store size	1975	1985	% change	1975	1985	% change
2-3 store companies	2,327	1,193	−49%	5,204	2,757	−47%
4-10 store companies	508	356	−30	2,656	1,982	−25
11 or more store companies	173	121	−30	10,749	16,568	54
Total no. of companies with 2 or more stores	3,008	1,607	−47	18,609	21,307	14

Source: Chain Store Guides



While some chains slowed their diversification efforts—even backing away from some ventures—auto parts remained a hot area. Above, an ADAP store operated by Rite Aid.

Inside 1986 Annual Report

Performance

Ten-year sales trends: chains, independents . . . 76
Top 50 chains in sales . . . 81
Top 50 chains in store count 83
Chain stock performance . 84
Final scores for public companies 86
Deep discount stores 89
Combos 90
Warehouses 93
Pharmacy computers 97
Executive forecasts 98
Executive changes 100

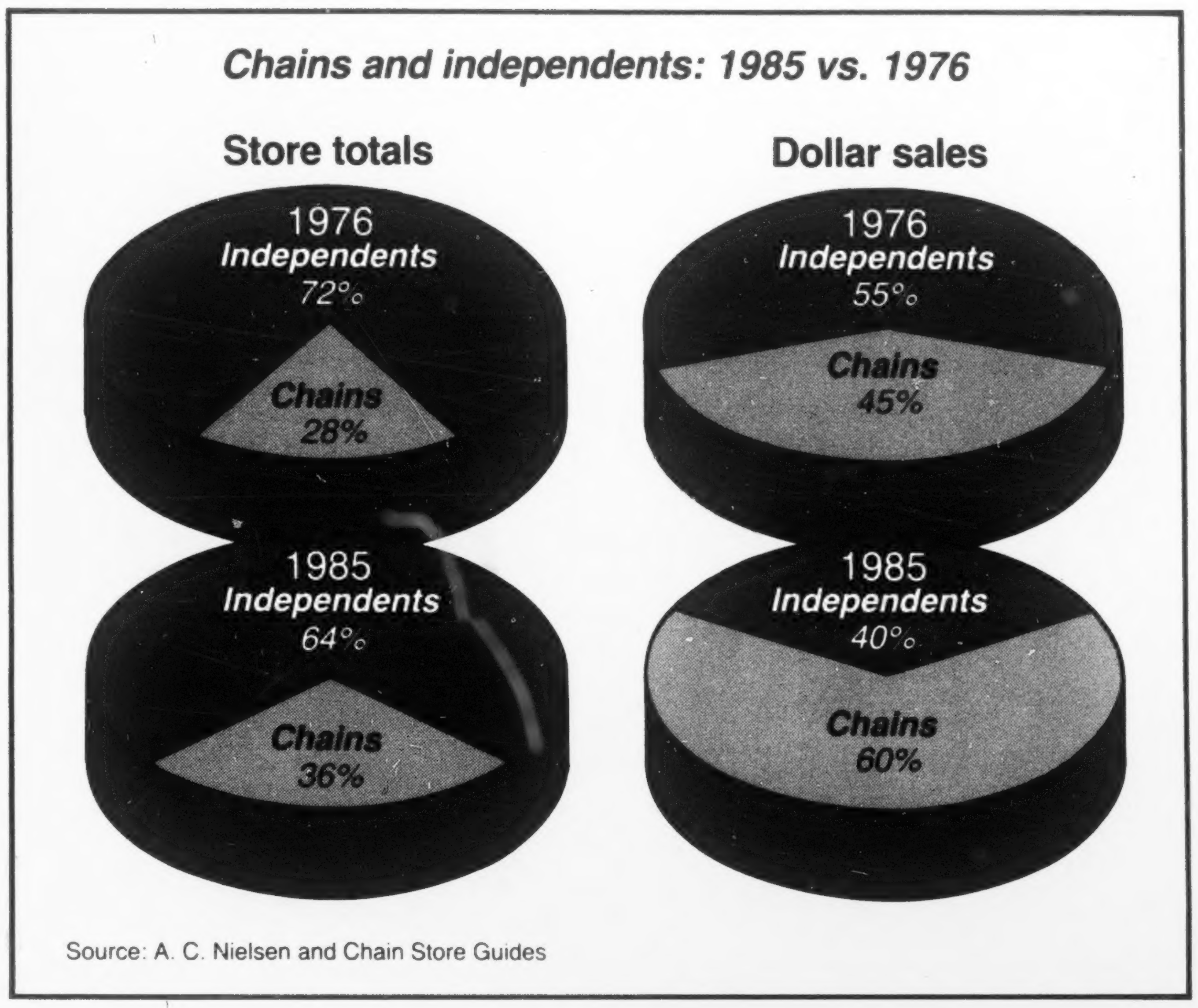
Profiles

Adams 135
Begley 149
CVS/Thrift 124
Dart 140
Eckerd 115
Fay's 151
Genovese 143
Gray Drug Fair 132
Hook 136
Longs 116
Medicine Shoppe/ Big "B" 144
Osco 113
Pay Less 127
Pay 'n Save 152
Peoples 120
Perry 139
Revco 110
Rite Aid 119
Shoppers Drug Mart . . . 154
SupeRx 130
Thrifty 123
Walgreens 103

PERFORMANCE

KEY DRUG
OPENING

Pay Less launched Key Drug, a downsized version of its superstore, for entry into smaller markets.



Source: A. C. Nielsen and Chain Store Guides

Continued from page 76

Eckerd fell on hard times last year. A dismal third-quarter earnings report triggered a precipitous decline in the company's stock to the low 20's.

Seizing that opportunity, the Dart Group, led by the Haft family, began to buy up Eckerd stock at what they considered an undervalued price. Whether the takeover threat was real or imaginary, Eckerd officials decided after settling with Dart to remove their vulnerability to a hostile takeover. The first plan was to find a friendly buyer, as chains like Peoples, Pay Less and Hook had done the previous year.

Failing that, they decided to buy out the company themselves. Their offer of $28 per share plus $5 per share in subordinated debentures was worth $1.2 billion, the highest price ever offered for a pure drug chain. Shareholders will meet at the end of this month to vote on the offer.

The lbo trend picked up speed after the turn of the year when a Snyder Drug management group, headed by president Don Beeler, made an offer to buy out the Midwest drug chain from the Wickes Cos.

Revco follows suit

It reached a gallop with Revco management's offer to shareholders of $33 a share plus $3 a share in preferred stock for the company's 32.3 million shares outstanding. The deal was worth $1.16 billion.

Like Eckerd, Revco had been experiencing difficulties, some of which were brought on by an internal battle with two major dissident shareholders, Bernard Marden and Isaac Perlmutter. The pair had been brought into the Revco inner circle as a result of the company's buyout of their Odd Lot closeout stores. Instead of working amicably with Revco's management, they became bitter critics. The protracted battle was finally settled with a sweetened offer to buy out the Marden-Perlmutter holdings, but it appeared to leave its mark on Revco's performance.

In the third quarter, however, Revco seemed to leave its troubles behind, as the policies of a management team headed by Sidney Dworkin and Bill Edwards began to take hold. Earnings were up 20% to $19.7 million, and the closely watched same-store sales rose 10.3%.

The Revco buyout move thus came at an opportune time of change in the chain's fortunes.

While the management of some of the nation's biggest chains were taking their companies private, others were devising new ways to expand. One method was to vary their format size to suit the characteristics of target markets.

Key and Junior

Pay Less, for example, created a new downsize version of its superstores for entry into markets too small to support a full-line Pay Less drug store. The smaller units, called Key drug stores, were an important part the chain's long-term strategy under its parent, K mart.

Longs, whose 200th store, in St. Luis Obispo, Calif., was about 10,000 sq. ft. smaller than its typical 25,000-sq.-ft. superstore, said that fitting smaller stores to smaller markets

Continued on page 81

10-year sales share trends

Year	Total sales (billions)	Chain share	Indep. share
1985	$47.0	60%	40%
1984	43.2	59	41
1983	39.7	57	42
1982	36.2	57	43
1981	33.4	55	45
1980	30.3	54	46
1979	27.2	52	48
1978	24.3	50	50
1977	22.5	47	53
1976	20.5	45	55

Source: A. C. Nielsen Co.

10-year drug store growth trend

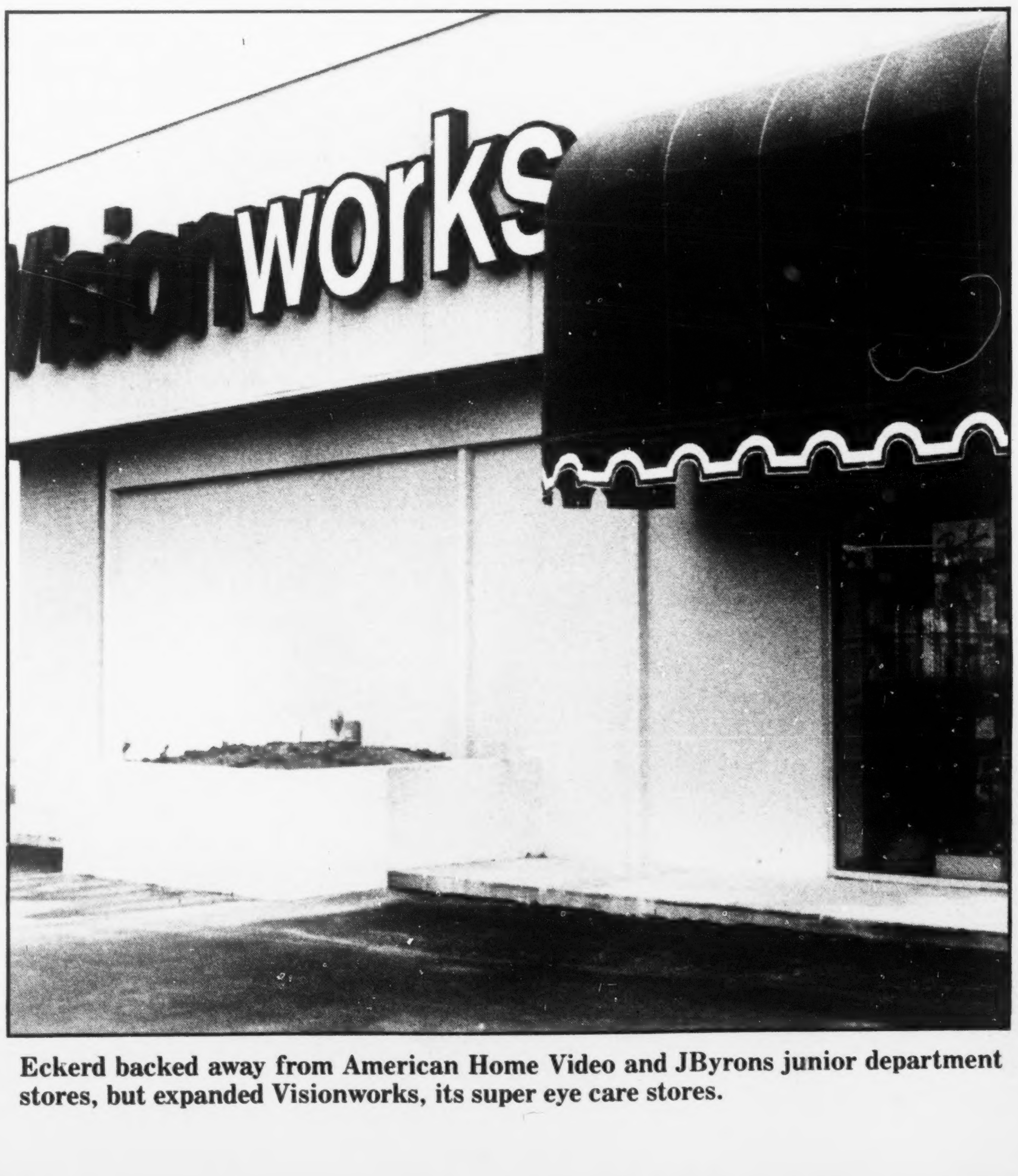
Year	Total stores	Chain stores	Indep. stores
1985	53,000	18,500	34,500
1984	50,709	17,677	33,032
1983	50,264	16,733	33,531
1982	49,400	16,347	33,053
1981	49,310	14,664	34,646
1980	49,192	14,815	34,377
1979	48,822	15,110	33,712
1978	49,151	14,709	34,442
1977	49,397	14,530	34,867
1976	50,719	13,998	36,721

Source: Chain Store Guides and Census Bureau

10-Year drug store share trend

Year	Chain share of stores	Indep. share of stores
1985	36%	64%
1984	35	65
1983	33	67
1982	33	67
1981	30	70
1980	30	70
1979	31	69
1978	30	70
1977	29	71
1976	28	72

Source: Chain Store Guides & Census Bureau



Eckerd backed away from American Home Video and JByrons junior department stores, but expanded Visionworks, its super eye care stores.

PERFORMANCE

Continued from page 78

might indeed be in the cards for the chain.

"Going to a smaller format is a very real possibility" in certain communities," said William Combs, vp/finance and administration. "It would not be unusual to see us opening stores as small as 12,000 to 15,000 sq. ft. of total store space."

Thrifty was another chain that embarked on a program to open smaller stores. Thrifty's move began with the purchase earlier this year of the 15-store Drug King chain. The chain became the base for a new division called Thrifty Jr., aimed, like Pay Less' Key, at smaller communities. The Drug King buyout was quickly followed by the acquisition of the 13-store Guild Drug chain, almost doubling the Thrifty Jr. base.

Dart Drug also said it would look to a new, smaller prototype of 5,000 sq. ft. as an important part of its growth strategy.

The year was also marked by aggressive expansion in the combination store and deep discount arenas. Drug chains felt the heat from both, but fought back by narrowing margins selectively and by stepping up their own entries into the deep discount market. Their moves were both offensive and defensive.

Estimates are that the deep discount market now represents about 3% of total drug store sales, but could go much higher as both the major deep discount players and others seek to expand their store counts.

Tampering terror returns

Early 1986 also brought back the specter of a nation held captive to a

Continued on page 84

Top 50 American drug chains: 1985 dollar volume

Rank	Headquarters	Drug store sales (in millions)	% change	Store totals	% change	Fiscal year ended
1. **Walgreens**	Deerfield, Ill.	$3,028	16	1,095	9	8/31/85
2. **Revco**	Twinsburg, Ohio	2,395	18	1,898	7	6/2/85
3. **Osco Drug**[1]	Chicago	2,281^e	12	531	11	2/1/86
4. **Eckerd**	Clearwater, Fla.	2,130	6	1,525	7	8/3/85
5. **Longs**	Walnut Creek, Calif.	1,481	8	208	9	1/30/86
6. **Rite Aid**	Shiremanstown, Pa.	1,450	12	1,372	9	2/28/86
7. **Peoples** (Imasco Ltd.)	Alexandria, Va.	1,225^e	11	813	8	3/31/86
8. **Thrifty**	Los Angeles	1,110	3	555	2	8/31/85
9. **CVS** (Melville Corp.)	Woonsocket, R.I.	1,017	16	592	7	12/31/85
10. **Pay Less NW** (K mart)	Wilsonville, Ore.	1,003^e	9	183	12	1/30/86
11. **SupeRx** (Kroger)	Cincinnati	844^e	(2)	550	(12)	12/31/85
12. **Gray/Drug Fair** (Sherwin-Williams)	Cleveland	672	8	437	4	12/31/85
13. **Thrift** (J. C. Penney)	Pittsburgh	641	9	374	0	1/28/86
14. **Pay 'n Save** (Trump Group)	Seattle	523^e	7	108	0	11/2/85
15. **Fay's**	Liverpool, N.Y.	445	21	143	21	1/31/86
16. **Drug Emporium**	Columbus, Ohio	387^e	104	90	88	12/31/85
17. **Perry**[2]	Pontiac, Mich.	383	32	191	31	10/31/85
18. **Hook** (Kroger)	Indianapolis	376^e	9	328	5	12/29/85
19. **Adams** (MacAndrews & Forbes)	Pawtucket, R.I.	365	10	418	(1)	12/31/85
20. **K & B**	New Orleans	346^e	5	144	7	9/30/85
21. **Dart**	Landover, Md.	260	16	77	(1)	7/31/85
22. **Supermarkets General**[3] **Drug Store Div.**	Woodbridge, N.J.	252^e	58	58	18	2/2/86
23. **Genovese**	Melville, N.Y.	233	6	75	3	1/31/86
24. **Medicine Shoppe**	St. Louis	230	26	583	17	9/30/85
25. **F & M**	Warren, Mich.	208^e	41	26	62	10/31/85
26. **Synder Drug**	Minnetonka, Minn.	200	14	54	0	10/31/85
27. **Medi Mart** (Stop & Shop)	Quincy, Mass.	162	7	67	5	2/9/86
28. **Big "B"**[4]	Birmingham, Ala.	150	32	126	17	1/30/86
29. **Duane Reade**	Long Island City, N.Y.	135	13	26	4	10/31/85
30. **Rock Bottom**	Port Washington, N.Y.	125^e	NA	21	50	12/31/85
31. **Arbor Drug**	Troy, Mich.	120	26	43	8	7/31/85
32. **Marc's**	Cleveland	100^e	NA	4	0	6/30/85
33. **Super D** (Malone & Hyde)	Memphis	99^e	8	99	(6)	7/30/85
34. **Discount Drug Mart**	Medina, Ohio	87	18	20	11	3/31/86
35. **Kerr**	Raleigh, N.C.	85	33	49	9	6/30/85
36. **Phar-Mor**	Columbus	84^e	NA	14	NA	6/30/85
37. **Medicare-Glaser**[5]	St. Louis	80	6.5	88	(1)	3/31/85
38. **La Verdiere's**	Winslow, Me.	79^e	NA	61	5	12/31/85
39. **Taylor Drugs**	Louisville, Ky.	78^e	4	47	2	9/30/85
40. **Harco**	Northport, Ala.	73	20	59	11	7/31/85
41. **Rix Dunnington Corp.**[6]	Auburnvale, Mass.	72	4	117	(9)	12/31/85
42. **Bill's Drug**	Lafayette, Calif.	70^e	9	26	8	3/31/86
43. **A. D. Clark**	Los Angeles	68^e	5	20	5	12/31/85
44. **Standard**	Richmond, Va.	66	5	69	13	3/31/86
45. **Drug Fair of N.J.** (Community Distributors)	Somerville, N.J.	64	28	28	12	7/28/85
46. **Medi-Save**[7]	Baton Rouge, La.	64^e	21	137	0	3/31/86
47. **Kinney Drug**	Gouverneur, N.Y.	62	9	28	8	12/31/85
48. **Begley Drug**	Richmond, Ky.	55	10	43	0	3/31/86
49. **Sentry Drug**	Detroit	51	28	23	21	3/31/86
50. **Pic 'n Save**	Jacksonville, Fla.	50^e	NA	40	5	
50. **Wellby Super Drug** (Hannaford)	Portland, Ore.	50	25	36	24	12/28/85

[1] Osco Drug does not include sales from 225 food drug combos.
[2] Perry does include sales from 61 drug store automotive combo stores.
[3] Supermarkets Drug division includes sales from 18 deep discount drug stores, but not from 123 food stores with Rx departments.
[4] Big "B" does not include sales from five food drug combo stores.
[5] Medicare-Glaser includes 56 professional pharmacy stores and 32 full-line drug stores plus sales from Medicare's Medical Service Division.
[6] Rix Dunnington Corp. has just finished consolidating its merger and will be operating on a new Jan. 31 fiscal year starting in 1986. They currently operate 45 freestanding drug stores plus 72 leased pharmacy departments in mass merchandise stores.
[7] Medi Save: 19 stores are in Medical Office Buildings, 10 are freestanding and the remaining 108 are licensed pharmacy departments in mass merchandise discount stores.

Source: Drug Store News *1986 Chain Drug Survey*

1985 Independent drug store sales

(in billions)

	$ volume	% change
High-volume independents ($500,000+)	$9.9	+14%
Middle-tier independents ($250-$500,000)	6.3	+2
Small-volume independents (under $250,000)	2.6	−8

Source: A. C. Nielsen Co.

Growth of mass merchandise stores with pharmacy departments

	1985	1984
Number of mass merchandise companies with pharmacy departments	70	74
Number of mass merchandise stores with pharmacy departments	2,124	1,908

Source: Lebhar-Friedman Chain Store Guides

Top Canadian drug chains

Company	Headquarters (parent)	Drug store sales latest fiscal year (in millions Canadian)	% change	Store totals	% change	Fiscal year ended
1. **Shoppers Drug Mart (Imasco Ltd.)**	Toronto	$1,600^e	19%	435	5%	3/31/86
2. **Pharm-Escomptes Jean Coutu**	Longeuil	495	15	100	10	5/31/86
3. **Boots (Boots United Kingdom)**	Toronto London	315^e	5	182	0	12/31/85
4. **Big "V"**	London, Ont.	148	19	79	11	9/30/85
5. **Kent Drug**	Mississauga, Ont.	80^e	11	72	1	1/25/86

Source: Drug Store News *Chain Drug Survey*

THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PERFORMANCE

Mass merchandisers with pharmacies

Company	Headquarters	Total stores	Number of stores with Rx depts.	% of total stores Rx depts.
K mart	Troy, Mich.	2,062	1,008	49%
Wal-Mart	Bentonville, Ark.	757	444	59
Fred Meyer	Portland, Ore.	92	90	98
Gemco (Lucky Stores)	Dublin, Calif.	80	80	100
Venture	St. Ann, Mo.	58	48	83
Howards	Monroe, La.	87	26	30
T.G. & Y.	Oklahoma City	476	25	5
Pamida	Omaha, Neb.	163	23	14
Target	Minneapolis, Minn.	230	17	7
Cook United	Maple Heights, Ohio	41	11	27
Fedco	Santa Fe Springs, Calif.	8	8	100
Gold Circle	Worthington, Ohio	45	8	18
Ames	Rocky Hill, Conn.	309	11	4

Source: *Drug Store News* survey

Chain drug store remodels

Company	1984	1985	1986E
Revco	234	277	255
Peoples	80	80	110
Rite Aid	150	150	100
Walgreens	46	61	70
Shoppers Drug Mart	50	55	60
Gray Drug Fair	69	20	59
Medicine Shoppe	26	25	30
Supermarkets General Drug Store Div.	n.a.	n.a.	21
Hook	14	22	20
Big B	n.a.	17	17
Taylor	15	20	10
Genovese	6	8	10
Fays	7	6	8
Longs	6	6	6
Sentry	2	6	6
Bartell	0	4	5
Bills	3	3	4
Duane Reade	3	3	4
Kinney	2	2	2
Page	6	6	1
White	2	2	1
Thrifty	49	30	n.a.
Adams	45	50	n.a.
Thrift	27	25	n.a.
Pay Less NW	14	8	n.a.
Medicare-Glaser	12	16	n.a.

Source: *Drug Store News* survey

Average chain drug store performance

Company	Store size	Sell space	Sales per store	Sales per sq. ft.
Duane Reade	5,000	$ 4,500	$5.0M	$1,100
Shoppers Drug Mart	7,200	6,000	3.7M	624
Medicine Shoppe	1,040	640	432,000	447
Longs	26,000	16,900	7.1M	400
Fay's	15,000	11,000	3.4M	309
Genovese	11,500	10,500	3.2M	304
Walgreens	12,000	10,000	2.8M	303
Perry	10,000	9,000	2.0M	255
Gray Drug Fair	11,900	8,900	1.52M	170
Peoples	12,500	10,000	1.6M	170
Rite Aid	6,500	6,000	1.0M	165
K & B	15,000	n.a.	2.4M est.	160
Hook	7,500	n.a.	1.1M est.	152est.

Source: *Drug Store News* chain drug survey

Top 50 American drug chains: 1985 store totals

Rank	Headquarters	Total stores 1985	% change vs. year ago
1. Revco	Twinsburg, Ohio	1,898	7%
2. Eckerd	Clearwater, Fla.	1,525	7
3. Rite Aid	Shiremanstown, Pa.	1,372	9
4. Walgreens	Deerfield, Ill.	1,095	9
5. Peoples (Imasco Ltd.)	Alexandria, Va.	813	8
6. CVS (Melville Corp.)	Woonsocket, R.I.	592	7
7. Medicine Shoppe	St. Louis	583	17
8. Thrifty	Los Angeles	555	2
9. SupeRx (Kroger)	Cincinnati	550	(12)
10. Osco Drug (American Stores)	Chicago Salt Lake City	531	11
11. Gray Drug Fair (Sherwin-Williams)	Cleveland	437	4
12. Adams (MacAndrews & Forbes)	Pawtucket, R.I.	418	(1)
13. Thrift (J. C. Penney)	Pittsburgh	374	0
14. Hook (Kroger)	Indianapolis	328	5
15. Longs	Walnut Creek, Calif.	208	9
16. Perry[1]	Pontiac, Mich.	191	31
17. Pay Less NW (K mart)	Wilsonville, Ore.	183	12
18. K & B	New Orleans	144	7
19. Fay's	Liverpool, N.Y.	143	21
20. Medi-Save[2]	Baton Rouge, La.	137	0
21. Big "B"[3]	Birmingham, Ala.	126	17
22. Rix Corp.	Auburnvalem, Mass.	117	(9)
23. Union Prescription Centers	Milwaukee	108	(2)
23. Pay 'n Save (Trump Group)	Seattle	108	0
24. Super D (Malone & Hyde)	Memphis	99	(6)
25. Drug Emporium	Columbus, Ohio	90	88
26. Medicare-Glaser[4]	St. Louis	88	(1)
27. L. F. Widmann	McElhattan, Pa.	79	(5)
28. Dart	Landover, Md.	77	(1)
29. Genovese	Melville, N.Y.	75	3
30. Standard	Richmond, Va.	69	13
31. Medi Mart (Stop & Shop)	Quincy, Mass.	67	5
32. La Verdiere's	Winslow, Me.	61	5
33. Harco	Northport, Ala.	59	11
34. Supermarkets General Drug Division[5]	Woodbridge, N.J.	58	18
35. Snyder	Minnetonka, Minn.	54	0
36. Kerr	Raleigh, N.C.	49	9
37. Taylor Drugs	Louisville, Ky.	47	2
38. Arbor Drug	Troy, Mich.	43	8
38. Begley Drug	Richmond, Ky.	43	0
39. True Quality	McKinney, Tex.	41	
40. Pic 'n Save (National Merchandise)	Jacksonville, Fla.	40	5
41. Bee Discount	Hillside, Ill.	39	
42. Wellby Super Drug	Portland, Me.	36	24
43. Kinney Drug	Gouverneur, N.Y.	28	8
43. Drug Fair of N.J. (Community Distributors)	Somerville, N.J.	28	12
43. Thayer	Stoughton, Mass.	28	
44. Bartell Drug	Seattle, Wash.	27	4
45. Duane Reade	Long Island City, N.Y.	26	4
45. Bills Drug	Lafayette, Calif.	26	8
45. F & M	Warren, Mich.	26	62
46. Peterson Drug	Oakfield, N.J.	24	
46. White Drugs	Jamestown, N.D.	24	(8)
47. Sentry Drug	Detroit	23	21
48. Thrifty Drug	St. Louis Park, Minn.	22	
49. Rock Bottom (Courtesy Drug)	Port Washington, N.Y.	21	50
50. A. D. Clark	Los Angeles	20	5
50. Discount Drug Mart	Medina, Ohio	20	11
50. Pill n Puff	Milwaukee	20	

[1] Perry numbers include 60 combo drug/automotive stores.

[2] Medi-Save has 108 licensed pharmacies in mass merchandise stores plus 19 stores in medical office buildings and 10 freestanding drug stores.

[3] Big "B" numbers do not include five food/drug combo stores.

[4] Medicare-Glaser includes 56 professional pharmacy stores and 32 full-line drug stores.

[5] Supermarkets General includes freestanding Pathmark, Heartland and Pharmacity drug stores, not the 123 pharmacies in food/drug combo stores.

Source: Drug Store News *1986 Chain-Drug Survey*

PERFORMANCE

Continued from page 81

pathological killer bent on poisoning the country's supply of over-the-counter medications, particularly capsules.

The death of a 23-year-old New York woman from a cyanide-laced Extra Strength Tylenol in February brought back the still unsolved tragedy of 1982, when seven people died after taking Tylenol capsules laced with cyanide.

Following the discovery of more tainted capsules, J&J, which manufactures Tylenol, announced it would relinquish its entire capsule business—a $150 million decision.

Only a few weeks later, another popular OTC medicine was a victim of random terror, when capsules of the cold remedy Contac were found laced with warfarin, a rat poison. Contac's maker, SmithKline Beckman, immediately announced that it would recall all Contac, Teldrin and Dietac products. The recall cost the company $8 million.

For J&J, the tampering tragedy was a giant blow, because the company had spent $60 million to reinforce Tylenol's market share after the 1982 tragedies. At the time the latest incident occurred, J&J's Tylenol had finally reached its pre-1982 market share, capturing about 33% of the $1.6 billion OTC analgesic business.

J&J's decision to withdraw from the capsule business sent shock waves through the entire industry and called into question the safety of capsules as a viable dosage form.

The safety issue was especially agonizing since J&J had packaged Tylenol in a triple-sealed package after 1982.

However, despite such precautions, industry observers stressed that there is no such thing as a tamper-proof package.

The Proprietary Association, a consortium of over-the-counter manufacturers, maintained it would not pull out of the capsule business. And many individual manufacturers have not made any announcement that they would follow J&J's example.

Nevertheless, many companies are bringing out caplet forms of medications once offered only as capsules. J&J took the lead with its caplet form of Tylenol, and American Home Products is reportedly bringing Anacin and Anacin-3 out in caplets. Moreover, many retailers are introducing caplet forms of analgesics in their private-label lines.

Many companies are also contemplating using new technologies to make hard-shell capsules more "tamper-evident," to ensure that tampering would be immediately obvious. These technologies include using ultrasonic seals to weld together two-piece capsules.

BUD'S
Discount Drugstore & MORE!

The chain invasion of the deep discount business heated up in 1985. Above, Peoples' Bud's.

Retail diversification areas for major drug chains

Company	Types of stores	No. of units '85	No. of units '86
Walgreens	Home health	3	5
	Restaurants	85	94
	Deep discount/(Ribordy Drug)	0	2
Eckerd	Home health	6	6
	Eye care superstores	2	5
	Optical	152	135
Revco	Closeout stores	100	150
	Deep discount drug	1	3
Rite Aid	Discount auto parts	30	25
	Home health	0	5
	Deep discount drug	2	20
	Book stores	0	15
Thrifty	Sporting goods	71	86
	Restaurants	23	0
	Discount book stores	171	184
	Discount auto parts	43	64
Perry	Auto parts	110	176
	Drug/auto combos	65	61
	Deep discount drug	3	4
	Home health	2	5
Pay Less NW	Deep discount drug	3	
Peoples	Deep discount drug	1	5
	Hardee's hamburger franchises	2	
	Home health	4	4
	Optical stores/freestanding	3	5
	Eye care superstore	0	1
	Card/gift shoppes	4	5
Begley	Home health care	3	6
	Dry cleaning stores	131	131
Big "B"	Home health	4	6
	Food drug combos	5	5
SupeRx	Deep discount drug	12	21
Hook	Home health	12	16
Fay's	Auto parts	1	8
	Stationery	1	4
Medicare Glaser	Optical	12	12
	Home health	1	1
Gray/Drug Fair	Deep discount drug	3	3
Dart	Deep discount drug	5	5

Source: *Drug Store News* chain drug survey

Chain drug stocks hold their own in market

Although hard times hit many of the leading public companies last year, the overall chain drug stock market performance held up reasonably well.

The chain drug stock index underperformed the market as a whole, but a number of companies managed substantial increases in the net worth of their investors' holdings.

The value of Perry's stock, for example, rose almost 48% on a year-to-year basis, while Big "B" stock was up almost 43%. Other chains whose per-share price increased substantially were Longs (up 38.4%), Walgreens (25%) and Thrifty (24.5%).

Two companies whose earnings fell off last year, Fay's and Genovese, were the only chains whose shares declined in value from 1984 to '85. Genovese was off 12.7% and Fay's 13.6%.

In recent months, however, both chains have experienced a gain in the value of their stock. Fay's was up 14% to $10 a share on April 7 from a year-end close of $8.75, while Genovese's per-share price rose 19% to $13.25 during the same period.

The reason: Both chains seemed poised for a run-up in their earnings after a period of difficulty. Fay's placed itself in a favorable position by refusing to pull in its horns at a time of perilous margin pressures. Genovese, for its part, pulled back from northern Connecticut and Massachusetts to concentrate on building its strength in the New York metro and Long Island markets, and it also solved many distribution problems that followed the opening of a new warehouse.

But part of the reason for the price increase may be Wall Street speculation that the two companies are potential merger candidates.

Other chains whose stock prices posted increases from year-end 1984 to '85 were Eckerd (up 7.4%), Medicare Glaser (up 12.5%), Revco (up 5.7%) and Rite Aid (up 2%).

The Eckerd price increase to $30.88 at year end, of course, was the result of the leveraged buyout offer by the company's management of $33 a share, $28 in cash and $5 in subordinated debentures.

1985 chain drug stock performance

Company	1985 stock prices High	1985 stock prices Low	1985 stock prices Last	'85% Change	Year-end '85 P/E	Year-end '84 P/E	4/7/85 Price
Begley	$17.63	$15.00	$16.25	+ 4.8	12.2	12.8	$21.50
Big "B"	19.50	10.75	15.50	+42.5	21.5	18.4	14.63
Eckerd	32.88	20.00	30.88	+ 7.4	NE*	12.4	30.88
Fay's	13.00	8.00	8.75	−13.6	25.7	15.3	10.00
Genovese	15.88	9.13	11.13	−12.7	10.1	12.4	13.25
Longs	31.75	21.69	30.63	+38.4	15.9	12.2	31.50
Medicare Glaser	6.25	4.00	4.50	+12.5	90.0	11.4	4.50
Perry	18.75	10.75	17.13	+47.7	17.5	13.6	15.50
Revco	29.50	23.13	25.50	+ 5.7	31.9	9.6	33.75
Rite Aid	33.50	21.50	25.88	+ 2.0	15.1	16.1	28.25
Thrifty	25.38	18.13	24.75	+24.5	15.5	14.2	18.13
Walgreens	30.25	21.50	28.13	+25.0	18.4	16.2	31.88

*NE—Negative earnings
Source: Media General

PERFORMANCE

Total corporate sales
(add 000,000)

Company	FY ends	'85	'84	'83	'82	'81
1. Walgreens	8/31/85	$3,162	$2,745	$2,360	$2,039	$1,743
2. Eckerd*	8/3/85	2,509	2,212	1,975	1,788	1,580
3. Revco	6/1/84	2,396	2,228	1,792	1,554	1,310
4. Rite Aid**	2/28/86	1,564	1,360	1,223	1,049	1,066
5. Longs	1/30/86	1,480	1,376	1,214	1,223	1,005
6. Thrifty	8/31/85	1,405	1,299	1,187	1,126	1,054
7. Perry	10/31/85	522	373	285	244	192
8. Fay's	1/31/86	455	367	312	270	238
9. Genovese	1/31/86	233	220	193	158	134
10. Big "B"	1/30/86	150	148	116	87	N.A.
11. Medicare-Glaser	3/31/85	82	77	69	57	N.A.
12. Begley	3/31/85	66	61	56	49	47

*Continuing operations (prior years have been restated)
**Continuing operations (1985 and 1984 have been restated)

1986 drug chains'

Drug store units

Company	'85	'84	'83	'82	'81
1. Revco	1,898	1,778	1,661	1,593	1,514
2. Eckerd	1,525	1,423	1,319	1,238	1,135
3. Rite Aid	1,372	1,275	1,148	1,055	963
4. Walgreens	1,095	1,002	941	833	821
5. Thrifty	555	542	537	533	534
6. Longs	208	191	178	173	162
7. Perry	191	146	122	125	117
8. Fay's	143	125	102	92	84
9. Big "B"	126	114	99	83	NA
10. Medicare-Glaser	88	101	101	89	NA
11. Genovese	75	77	72	66	61
12. Begley	43	45	43	47	51

Sales per average store
(add 000)

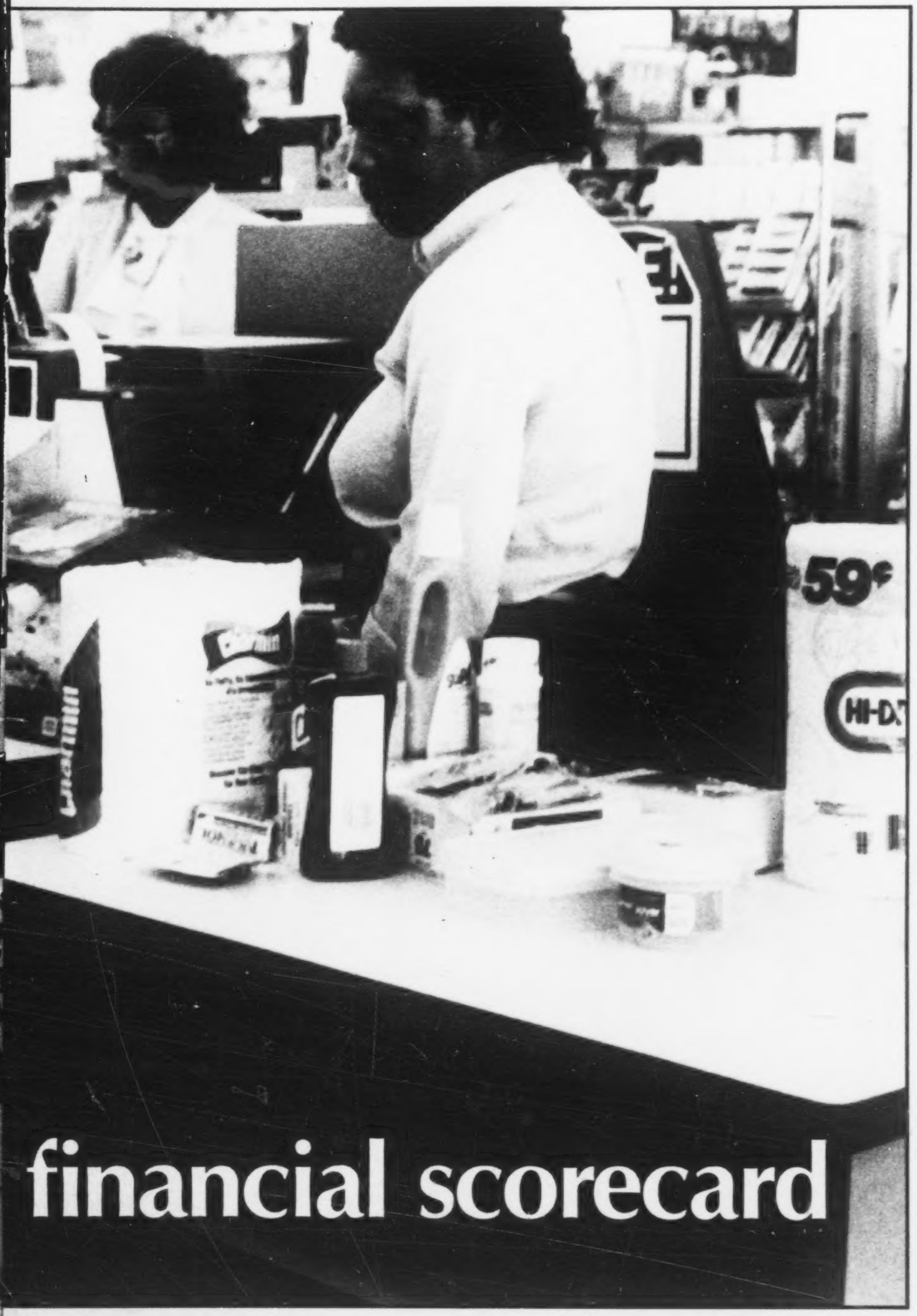
Company	'85	'84	'83	'82	'81
1. Longs	$7,115	$7,203	$6,823	$6,493	$6,206
2. Fay's	3,112	2,934	3,062	2,938	2,836
3. Genovese	3,107	2,861	2,691	2,404	2,199
4. Walgreens	2,765	2,609	2,379	2,179	1,911
5. Perry	2,005	1,983	2,012	1,954	1,641
6. Thrifty	2,000	1,987	2,210	2,113	1,975
7. Eckerd	1,397	1,578	1,521	1,462	1,413
8. Begley	1,279	1,022	1,010	802	712
9. Revco	1,262	1,253	1,079	976	866
10. Big "B"	1,190	1,299	1,182	1,053	NA
11. Rite Aid	1,057	1,017	1,066	938	871
12. Medicare-Glaser	909	760	690	651	NA

Sales per store reflect averages for drug stores only

Net-to-sales ratio

Company	'85	'84	'83	'82	'81
1. Rite Aid*	4.3%	4.8%	5.1%	4.8%	3.7%
2. Walgreens	3.0	3.1	3.0	2.7	2.4
3. Thrifty	2.8	2.1	1.9	1.6	1.7
4. Longs	2.5	2.9	3.0	2.8	3.0
5. Big "B"	2.3	2.9	3.0	2.9	N.A.
6. Eckerd*	2.3	3.3	3.3	3.4	4.5
7. Perry	1.8	2.1	1.6	1.2	1.8
8. Revco	1.6	4.2	3.7	3.2	3.4
9. Begley	1.4	1.2	1.4	0.5	1.7
10. Genovese	1.2	1.9	2.0	1.7	1.3
11. Fay's	0.6	2.4	2.6	2.0	1.3
12. Medicare-Glaser	0.2	3.8	1.4	0.1	N.A.

*Reflects continuing operations



financial scorecard

Net income
(add 000)

Company	'85	'84	'83	'82	'81
1. Walgreens	$94,169	$85,446	$69,789	$56,064	$42,127
2. Rite Aid	62,547	69,936	62,167	49,885	39,852
3. Eckerd	58,373*	85,374	71,731	70,681	78,510
4. Revco	38,906	93,411	66,470	49,638	45,129
5. Longs	37,700	40,094	36,387	30,890	30,274
6. Thrifty	32,891	27,921	22,503	18,302	17,752
7. Perry	9,575	7,650	4,545	2,868	3,369
8. Genovese	2,900	4,137	3,856	2,646	1,780
9. Fay's	2,787	8,679	8,103	5,479	3,071
10. Big "B"	4,039	4,442	3,471	2,541	N.A
11. Begley	695	733	807	229	798
12. Medicare-Glaser	161	1,104	970	76	N.A.

*Continuing operations

Gross margin %

Company	'85	'84	'83	'82	'81
1. Begley	38.0%	33.9%	33.4%	31.0%	32.0%
2. Medicare-Glaser	34.1	34.2	33.1	33.2	N.A.
3. Perry	31.7	31.1	29.9	29.8	29.8
4. Walgreens	30.7	30.7	30.6	30.5	29.3
5. Big "B"	29.2	29.3	29.8	29.6	N.A.
6. Genovese	29.0	29.7	29.9	29.9	29.8
7. Rite Aid	28.7	29.3	28.2	27.1	22.6
8. Thrifty	28.2	28.6	28.2	27.9	27.4
9. Eckerd	27.7	29.4	28.3	28.7	29.3
10. Revco	25.1	28.1	27.4	27.0	26.7
11. Longs	24.2	24.0	24.6	24.1	24.1
12. Fay's	23.7	25.5	25.6	24.9	25.3

Expense ratio*

Company	'85	'84	'83	'82	'81
1. Longs	19.3%	—	—	—	—
2. Rite Aid	19.5	17.5%	19.9%	16.2%	13.7%
3. Fay's	20.8	20.2	19.5	19.4	21.0
4. Thrifty	21.6	20.8	22.3	22.4	21.8
5. Revco	21.7	19.1	19.0	19.6	19.3
6. Eckerd	22.4	21.5	21.0	21.1	20.6
7. Walgreens	24.2	24.1	24.4	25.1	25.0
8. Big "B"	24.2	23.2	23.7	24.1	N.A.
9. Perry	27.8	26.2	25.9	26.1	25.5
10. Genovese	28.1	24.7	25.0	25.3	26.0
11. Medicare-Glaser	32.9	28.9	28.3	30.1	N.A.
12. Begley	47.2	44.8	42.7	37.8	40.1

*Excludes depreciation and amortization costs

Return on investment %

Company	'85	'84	'83	'82	'81
1. Walgreens	21.0%	22.3%	21.4%	18.7%	16.8%
2. Thrifty	19.1	19.3	17.4	15.0	15.0
3. Rite Aid	16.6	20.6	21.3	19.1	18.3
4. Longs	13.5	—	—	—	—
5. Perry	13.3	12.7	11.5	11.2	14.4
6. Big "B"	12.5	15.9	14.6	11.5	N.A.
7. Genovese	12.1	19.3	21.3	16.1	12.6
8. Revco	8.6	22.7	20.2	17.4	18.3
9. Begley	7.1	7.5	8.6	2.5	8.1
10. Fay's	4.6	15.6	20.8	23.4	14.7
11. Medicare-Glaser	*	27.9	21.6	1.8	N.A.
12. Eckerd	**	14.4	13.1	13.3	16.8

*Less than 1%
**Reported net loss for FY-1985

Deep discounters corner 3% of industry sales

The jury may still be out on deep discount drug stores, but it's becoming clear that the verdict will be favorable.

The past year was marked both by unprecedented growth in what's been called the hottest trend in the retail drug industry in 20 years and the first signs that the deep discount industry may be headed for a shakeout.

According to a *Drug Store News* survey, the number of stores has more than doubled, and the dollar volume of sales has nearly tripled in the two years since the deep discount field began booming. For example, since 1983, the number of deep discount outlets has jumped from 140 to 300, and sales volume has increased from $631 million to $1.5 billion. Deep discount volume now represents about 3% of total drug store industry sales.

The strong growth pattern clearly demonstrates that deep discounting is more than the fad some traditional drug store operators had hoped it would be, but the relative infancy of the phenomenon—75% of all deep discount drug stores are less than five years old—makes it difficult for analysts to assess the long-term outlook.

Most operators claim it takes a full five years for a deep discount store to realize its maximum return; thus sales figures—for the stores that survive—can be expected to improve as the industry matures. However, drug industry observers estimate that currently, only about 25 stores have sales in excess of $10 million, 75 are doing business in the $6 million-$7 million range, and the remainder are doing $6 million or less. The break-even point is pegged at somewhere between $2 million and $5 million annually.

Although most of the recent activity on the deep discount front has been bullish; last year, three conventional chains that experimented with the deep discount concept abandoned their efforts after just six months: Medicare-Glaser shut down its MEGS, American Stores closed its FAD, and Fay's its Jay-Jays. More recently, Safeway Stores began shutting down its Drugs For Less operation because of inadequate return.

Stiff competition

The closing of these stores underscores the increasing complexity of deep discounting. In the days when a couple of entrepreneurs pioneered the concept, it took little more than a decent location, good prices and a couple of hand-lettered signs to buy success. Today, however, with stiff competition from both the growing field of deep discounters and from conventional drug stores who welcome newcomers to their market with price-busting sales of their own, deep discounters face an uphill battle from the start.

Nonetheless, an increasing number of chains are jumping on the deep discount bandwagon, and a number of well-established deep discounters are expanding operations.

Recent developments

The following developments highlighted the past year:

- Drug Emporium, the nation's largest chain of pure deep discounters, continued its rapid expansion, growing from 47 stores in 1984 to close to 100 by the end of 1985. President Philip Wilber projects 200 stores by the end of 1986.
- F&M, the second largest deep discount chain, grew to 26 stores in 1985, and the company's new president and ceo, Frank A. Newman, announced intentions to expand to 100 stores by 1990. Newman said he had no plans to change F&M's basic operations. All stores are company-operated, and F&M is one of the few deep discount chains to warehouse merchandise and refrain from advertising beyond opening promotions.
- Supermarkets General, operators of Pathmark, purchased the New England chain of Heartland deep discount stores last year and added two additional Pathmark Super Drug Stores to its deep discount effort in the Baltimore area. The company plans to open seven additional deep discount drug stores as part of its $200 million companywide expansion plan.
- SupeRx became the nation's fourth largest operator of low-price retail drug stores with the opening of four new Drug World stores in the St. Louis area on the same day last May and the acquisition of five Warehouse Drug outlets from Mi-Lo of Fort Mitchell, Ky.
- Phar-Mor, a Columbus, Ohio-based deep discount chain that didn't exist four years ago, finished out 1985 with 20 stores and an estimated $120 million in sales.
- Melville, which became the first major chain to purchase an existing deep discount store when it acquired Freddy's in Rochester, N.Y., in 1984, has committed to fund a swift expansion program. The company has opened seven new stores in New York and Florida and plans five more this year.
- Mi-Lo, which sold five Warehouse Drug units to SupeRx, is being dissolved with the retirement of its president and re-established as a deep discount operation, owned and operated by its former managers and stockholders. The new company, known as Deep Discount Drugs, is beginning operations with five outlets.
- Rock Bottom announced plans to open 10 new stores during the next two years, which would bring its total store count to 35. Its president, Richard Otto, wants to "saturate" the New York metro market with deep discount stores.

Howie's opened two stores

- Howie's, a Canadian deep discount drug chain operated by Shoppers Drug Mart, simultaneously opened two stores in Windsor, Canada, bringing its total to five stores.

Top 20 deep discounters

Company (parent)	Headquarters	$ sales	% change	Stores	% change
1. Drug Emporium	Worthington, Ohio	$387^{e}	104%	90	88%
2. F & M	Warren, Mich.	208^{e}	41	26	62
3. Rock Bottom	Port Washington, N.Y.	125^{e}	NA	21	50
4. Heartland (Supermarkets General)	North Billercia, Mass.	112^{e}	NA	14	NA
5. Marc's	Cleveland	100^{e}	NA	4	NA
6. Phar-Mor	Columbus, Ohio	84^{e}	NA	14	NA
7. Drug World (SupeRx)	Cincinnati	60^{e}	NA	16	128
8. Howie's/Carnevale (Shoppers Drug Mart)	Toronto	45^{e}	NA	7	NA
9. Freddy's (Melville Corp.)	Woonsocket, R.I.	43^{e}	87	7	250
10. Drugs For Less (Safeway)	Los Angeles	40	NA	13	NA
11. Warehouse Way	Detroit, Mich.	35^{e}	5	7	0
12. Drug Palace (Rite Aid)	Shiremanstown, Pa.	34^{e}	62	12	50
13. Drug Castle	Springfield, Ohio	32^{e}	113	9	80
14. Cost Cutters (Community Distributors)	Somerville, N.J.	32^{e}	NA	7	NA
15. Pathmark (Supermarket General)	Edison, N.J.	26^{e}	NA	4	NA
16. Jax's (Fisher Foods)	Cleveland	19^{e}	6	2	0
17. Valu Giants (Pay Less NW)	Wilsonville, Ore.	18^{e}	5	3	0
18. Total Plus (Dart)	Landover, Md.	15^{e}	5	5	0
18. A. L. Price (Perry Drug)	Detroit, Mich.	15^{e}	19	4	33
18. Cecille's	Detroit, Mich.	15^{e}	9	1	0
19. Ike's (Malone & Hyde)	Memphis	14	8	2	0
19. Dot (Wal-Mart)	Bentonville, Ark.	14	18	2	0
19. Bud's (Peoples)	Alexandria, Va.	14^{e}	17	3	50
20. Get It For Less (Revco)	Twinsburg, Ohio	13^{e}	10	3	0

PERFORMANCE

Combos accelerate in one-stop shop push

Beefing up nonfoods fattens gross margins

The food/drug combo, now in full bloom, is the culmination of a decade of ever-tightening food competition.

The food chains' initial response to receding gross margins was to open larger supermarkets with beefed up nonfoods, because nonfoods offered a richer profit mix. Thus, nonfood space in supermarkets rose from 5% to 10% in conventional food stores to as much as 30% in superstores.

In their desire for one-stop shopping, food operators also added pharmacies on a selective basis.

So it was inevitable that the next phase in the evolution would be the food/drug combo: putting the best of both entities under central checkout. And it worked. While accounting for only one-third of the sales, the drug side delivered two-thirds of profits.

Although this simple ratio may have been discovered by many retailers, the man who acted on them with the most alacrity and single-minded determination was Sam Skaggs, chairman of American Stores. So much so, that American—operating both freestanding drug and food stores and food/drug combos—has indicated it will build only food/drug combos in the future.

Smith's Management Corp., headquartered in Salt Lake City, which operated conventional food stores for years, has emulated American in building only combos.

And Florida-based Publix Supermarkets, the nation's 10th-largest food chain, will not open any more conventional supermarkets—only superstores and combos.

Florida is a microcosm of the combo as a vital marketing force that is draining sales from supermarkets and drug stores alike.

As a result of the Skaggs-Albertson partnership, Albertsons was there first and, with 52 combos, dominates the state. That dominance is now being challenged by Family Mart (a division of A&P), Kash 'N Kary [Lucky], Winn-Dixie—and now Publix.

The entry of Publix, which will open six food/drug combos this year, will be closely watched by food and drug operators. Publix's food stores emphasize service, selection, and good housekeeping. If Publix transfers these intrinsic qualities to its food/drug combos—as expected—then it will quicken the trend to segmentation of the combo at two levels: upscale and discount.

Service image

The champion of upscale is Tom Thumb/Page, Dallas. This chain has managed to build a service image in a fiercely competitive market and still impact a price-value image.

Albertson's, after giving up its Dallas combos when the Skaggs-Albertson partnership was dissolved in the 70's, re-entered the marketplace and surprised competition by going to discount pricing. Tom Thumb/Page responded by reducing prices on 5,000 gm/otc items and announcing 10% off on all cosmetics.

Cosmetics is typical of the chain's high service level. There are two cosmeticians on each shift, and cosmeticians dress differently from other clerks, making them instantly identifiable.

When Pantry Markets, Tom Thumb/Page's sister division in southern California, opened a 40,000-sq.-ft. food/drug combo in Orange County in 1985, the theme was also upscale—wider aisles, a more expansive concourse, and gourmet lines. The upgraded approach also extends to pharmacy.

Acquiring sites

Looming on the horizon is further upscaling into the gourmet food/drug combo. Tom Thumb/Page wants to expand its Simon David concept—in fact, acquiring sites is the real estate department's No. 1 priority.

To date, however, sites have proved to be the No. 1 stumbling block. The dilemma: The location must be in a high-income area, but land to support a 50,000-sq.-ft. combo is not only scarce but extremely expensive.

The reason Tom Thumb/Page is primed for expansion of Simon David is the success of its 33,000-sq.-ft. Dallas showpiece. At ground level are service deli, meat, bakery, produce and dry grocery; on the upper level are service candy, FTD florist, cafe (with pastry chef), pharmacy, and H&BA.

"We are people-oriented," says Bob Wieck, pharmacy manager. "Our pharmacist makes personal contact with every patient on every script."

In a 50,000-sq.-ft. Simon David module, H&BA and dry grocery will be expanded, and gourmet housewares will be added.

On the flip side of upscale combos are the discount combos. A prime example is Sack 'n Save, operated by Minyard Food Stores. Two 70,000-sq.-ft. combos—with discount foods alongside discount drugs—are finding a niche in Waco and Dallas.

But variations of the two types (upscale and discount) are preventing polarization. Typical is Vons Pavilion, a 75,000-sq.-ft. hybrid combo unveiled in Garden Grove, Calif., last year.

Vons' approach

Vons injected a fresh approach to one-stop shopping by offering staple drugs and groceries at discount prices in an environment of palate-pleasing departments.

To date, the concept has worked. Even though the first Pavilion is located in a low/middle-income area, it is drawing from high-income Orange County residents on the outskirts.

Supermarket chains with pharmacies

Company headquarters	*Total stores*	*No. of stores with Rx depts.*	*% of total stores with Rx depts.*
1. **Kroger**, Cincinnati, Ohio	1,363	570	42%
2. **Safeway**, Oakland, Calif.	1,856	426	23
3. **American Stores**, Salt Lake City	1,493	225	15
4. **Albertson's**, Boise, Idaho	435	155	36
5. **Supermarkets General food stores**⁺⁺ Woodbridge, N.J.	181	123	68
6. **Giant Food**⁺, Landover, Md.	137	78	57
7. **Shop Rite (Wakefern Foods)** Elizabeth, N.J.	190	70	37
8. **Lucky Stores**, Dublin, Calif.	580	67	12
9. **Smiths Management**, Salt Lake City	90	65	72
10. **H. E. Butt**, Corpus Christi, Tex.	146	64	44
11. **Raley's**, Sacramento, Calif.	50	46	92
12. **Von's Value Centers**, El Monte, Calif.	178	37	21
13. **Tom Thumb/Page (Cullum)** Dallas, Tex.	67	32	48
14. **Farm Fresh**, Norfolk, Va.	39	30	76
15. **Wegman's**, Rochester, N.Y.	36	29	81
16. **A&P Family Marts food/drug combos** Clearwater, Fla.	28	28	100
16. **Furr's Inc.**, Lubbock, Tex.	130	28	22
17. **Grand Union**, Elmwood Park, N.J.	375	27	7
17. **Randall's**, Houston, Tex.	33	27	82
18. **Smitty's Super Valu**, Phoenix, Ariz.	22	18	82
19. **Rosauers**, Spokane, Wash.	24	15	63
20. **Erickson's Foods Inc.**, Hudson, Wis.	15	14	93
21. **Carr's Quality Centers** Anchorage, Alaska	13	13	100
21. **Dahl's Food Markets**, Des Moines, Iowa	13	13	100
21. **Stop 'n Shop**, North Quincy, Mass.	114	13	11
22. **A&P Supermarkets**, Montvale, N.J.	861	12	1
23. **Bruno Inc.**, Birmingham, Ala.	94	11	12
24. **Foodway Inc.**, Fayette, Ala.	29	10	34
25. **Sack 'n Save (Minyard's)**, Coppel, Tex.	8	8	100
26. **Giant Open Air**, Norfolk, Va.	23	5	22
26. **Dierberg**, Chesterfield, Mo.	10	5	50
26. **Big "B,"** Birmingham, Ala.	5	5	100
27. **Sentry Markets**, Waukesla, Wis.	88	3	3
27. **Randall's**, Mitchell, S.D.	22	3	14
28. **Smithy's**, Springfield, Mo.	3	2	67
29. **Roundy's**, Pewaukee, Wis.	37	1	3

	1985	*1984*
Number of supermarket companies with pharmacy departments	238	237
Number of supermarket stores with pharmacy departments	1,702	1,501
Number of food/drug combination stores	1,182	NA

Kroger
Food &
Drugs
open 24 hrs
KROGER BREAKFAST BAR

Kroger is the leading food/drug combo operator in the country.

PERFORMANCE

Chains are big on high-tech warehouses

Chain drug store operators zipped into the space age during the past year as they added state-of-the-art technology to their warehouses.

Many leading drug concerns now operate warehouses replete with laser scanners capable of directing shipments along miles of mechanized conveyors spanning several tiers of these behemoth structures.

This electronic wizardry allows drug store retailers to improve warehouse efficiencies and thus contribute nicely to the bottom line. Many chains report improved inventory turns, better in-store stock positions and streamlined delivery schedules, thanks to warehouse automation.

Although Walgreens, with its Itematics order-picking system, still operates the most sophisticated facility of any drug store operator, several other companies recently unveiled centers with dazzling features. For example:

- Peoples Drug Stores' new $24 million facility in Fredericksburg, Va., not only houses the latest in computer technology, but its 500,000-sq.-ft. site was selected by a computer. Opened Sept. 8, 1985, this three-level center has the capability of whizzing through 270 cases per minute and loading 36 trucks at once.
- Perry Drug Stores' new addition to its Pontiac, Mich., warehouse is up and running. The 400,000-sq.-ft. center serves 56% of Perry's drug store total volume, said Gene Swink, vp-distribution. The facility gives Perry the power to process 105 cases per minute (on one level), making it one of only three drug chains with an output that fast. With its new mechanized system, designed by Semco, Sweet & Mayers, Perry said it can operate about five times more efficiently than with its older routine of pallets and tow lines.
- Genovese Drug Stores' facility in Bohemia, N.Y., is a semiautomatic center, permitting the chain to increase its percentage of merchandise handled through the distribution center from a low 25% to 45% and eventually to 70%-75%. Although Don Gross, vp-marketing and distribution, said costs associated with getting the center up and running hindered earnings during the first half of Genovese's fiscal year, he expects improvements in distribution to contribute to the retailer's bottom line for the remainder of the year.

Some initial kinks had to be worked out, he continued, because Genovese upgraded so fast. Now, however, stores are being serviced twice a week, rather than on a weekly basis, he said. The result is an improved in-stock situation and "happier managers."

Move toward consolidation

Not only was it a year for drug operators to install computer gadgetry; it was a time to move toward greater consolidation. Retailers want to have a better handle on their merchandise, even if it means higher inventory costs.

In a major move, American Stores centralized its distribution network for its drug divisions—Osco, Skaggs and Sav-On—following American's purchase of Jewel Cos. Osco is one of the most warehouse-oriented retailers in the business, handling almost 90% of its merchandise. Conversely, Skaggs previously handled only 20% centrally, and Sav-On, 50% or less. Four distribution centers will supply merchandise to the network of drug outlets American now owns.

Pay 'n Save, another retailer that had relied heavily on wholesalers, also converted to centralized distribution in 1985. Pay 'n Save is gearing up for greater centralization by revamping its 350,000-sq.-ft. warehouse in Auburn, Wash., to incorporate updated technology, including the capability of processing 100 cases per minute.

Outgrew warehouses

A host of other retailers outgrew current warehouses in 1985 and early 1986. Rite Aid announced plans to break ground for its fourth distribution center, a 265,000-sq.-ft. site in Columbia, S.C. To be opened in 1987, this unit will ease the servicing of stores that the Shiremanstown, Pa.-based chain operates in North Carolina, South Carolina and Georgia. Currently, these stores are supplied by a facility in Charleston, W. Va.—a 10-to-12-hour trip by truck.

Birmingham, Ala.-based Big "B" opened a 240,000-sq.-ft. warehouse to help manage a spate of new store openings. The $7 million warehouse replaces a cramped 90,000-sq.-ft. site Big "B" had leased. Big "B" is capable of serving up to 300 stores within a 400-mile radius, leaving the chain plenty of room to grow.

The new site has automated flow racks with conveyor belts and scanners to direct merchandise. The new warehouse should pay for itself by the end of the first year, according to Big "B."

Pay Less will also add a new distribution center to keep up the aggressive plans parent K mart has for growth. Gray Drug Fair has plans in 1986 to add 100,000 sq. ft. to one of its existing centers.

Walgreens, says John Brown, senior vp, will add 140,000 sq. ft. to its center in Orlando, Fla.; 100,000 sq. ft. to its Windsor, Canada, site, and 130,000 sq. ft. to the Houston facility. Over the last five years, he adds, distribution volume to stores has risen twice as fast as distribution costs. Plus, 97% of the stores now receive merchandise within two days of order placement. Walgreens serves 90% of all prescription drugs through its own distribution system.

Peoples Drug Stores' new $24 million warehouse in Fredericksburg, Va., shown here while under construction, opened in September 1985.

Top drug chains in warehousing

	1985			1984		
Company	No. of DC's	Total sq. ft.	% handled thru DC's	No. of DC's	Total sq. ft.	% handled thru DC's
Revco	9	3.0M	NA	9	3.0	NA
Eckerd	9	2.8M	NA	9	2.8M	NA
Walgreens	6	1.8M	80%	6	1.8M	78%
Peoples	8	1.6M	70	7	1.1	70
Thrifty	3	1.2M	85	3	1.2	85
Rite Aid	4	1.1M	85	3	800,000	85
CVS	2	1.0M	84	2	927,237	80
Page	1	1.0M	70	1	1.0M	70
Thrift	3	781,000	NA	3	781,000	NA
Gray Drug Fair	3	697,000	77	3	697,000	75
SupeRx	2	560,000	NA	2	560,000	NA
Pay 'n Save	2	540,000	NA	2	540,000	NA
Perry	3	513,000	56	2	288,000	NA
Pay Less NW	1	508,000	NA	1	508,000	NA
Dart	1	500,000	NA	1	500,000	NA
K&B	2	485,000	85	2	485,000	85
Adams	1	410,000	NA	1	410,000	NA
Hook	1	400,000	80	1	400,000	80
Snyder	1	363,000	NA	1	363,000	NA
Fay's	1	280,000	75	1	280,000	75
Big "B"	1	240,000	70	1	100,000	NA
Courtesy	1	175,000	NA	1	175,000	NA
Genovese	1	155,000	62	1	51,000	42
Kinney	1	138,000	95	1	138,000	95
Duane Reade	1	130,000	90	1	140,000	80
Kerr	1	120,000	NA	1	120,000	NA
Standard	1	100,000	NA	1	100,000	NA
La Verdiere's	1	100,000	NA	1	100,000	NA
Taylor	1	80,000	78	1	80,000	78
Longs	5	23,000	23	5	20,000	23

Source: *Drug Store News* chain drug survey

PERFORMANCE

Drug chains to install latest POS computers

Major advantage is automatic price lookup

Point-of-sale computer technology, once the exclusive turf of supermarkets, has begun to gain a foothold in the chain drug store industry.

According to a survey conducted by *Drug Store News*, by the end of this month, more than one-third of all chain drug stores will be using electronic cash registers capable of being upgraded to a POS system.

A major feature of a POS operating system is automatic price lookup. With a POS electronic cash register, the cashier need only key in the universal product code and/or store code. The POS register then searches a master price file and assigns a price to the product, which gets registered on a cash register readout.

At the same time, the computer is able to keep a perpetual inventory of all items being keyed into the register. Special merchandise, like those products appearing in a circular, can be "flagged" by the computer, allowing managers to keep closer tabs on hot-moving items.

In busier stores, keying in time can be considerably lessened by the installation of scanners. Scanners are able to "read" universal product bar codes and automatically scan the computer's database of prices.

While many chains have begun to test POS, few have made the commitment in time and money. Although POS prices have dropped dramatically over the years (nearly in half), the average chain must still invest an average of $35,000 a store to become fully automated.

One chain that has taken an active leadership role in POS technology is Rite Aid, headquartered in Shiremanstown, Pa. Last year Rite Aid began installing point-of-sale scanning cash registers in its more than 1,300 drug stores at the rate of 50 new stores a month.

According to Duane Ruble, senior vp, the chain anticipates that scanning alone will generate an overall savings of one-half to three-quarters of a percentage point.

Ruble said the savings will come from the elimination of price marking in many stores, the reduction in cashier ring-up errors, and the automatic changing of prices chainwide.

Some other key players in testing POS include:

- Fay's Drug, Liverpool, N.Y.—testing both hand-held and slot scanners. The test is designed to help determine what will suit its needs best. A typical Fay's store stocks more than 17,000 sku's.
- Medicare-Glaser, St. Louis—installing electronic point-of-sale cash registers in 13 of its conventional full-line drug stores. The system will track an average of 15,000-18,000 sku's.
- Thrifty Drug, Los Angeles—investing $60 million to develop and install a comprehensive computer system during the next five years. Plans include POS registers, a direct store delivery system, a store inventory management system and an energy management and labor scheduling system.
- Pay Less NW, Wilsonville, Ore.—has installed 300 on-line POS registers and expects to have 3,000 more in place by the end of this year.

Other chains experimenting with POS are Revco, Eckerd, Hook, Gray Drug Fair, White, SupeRx, Thrift, CVS, Drug Fair of N.J., and Peoples.

Computerization in the pharmacy

While POS is just in its infancy in chain drug stores, computerization in the pharmacy has reached maturity.

Nearly 90% of the chains surveyed by *Drug Store News* reported they will have pharmacy computers in place in at least 25% of their stores by the end of this month, and more than half expected to have between 50% and 100% of their pharmacies automated by the end of this year.

Unlike POS, the cost and time-saving benefits of pharmacy computers are many and already well documented. They include: price updates, third-party processing, patient profiles, drug interactions, and automated labeling.

Dropping prices and increased technology have allowed software designers to include more sophisticated packages, usually with no increase in the software base price. These can include programs for processing durable medical equipment rentals, payroll, general ledger, accounts receivable and payable, and the processing of nursing home prescriptions.

Personal computers used

Because of the increased popularity of pharmacy computer systems during the past several years, software manufacturers are striving to rewrite their programs to run on a variety of less expensive hardware, including several brands of personal computers.

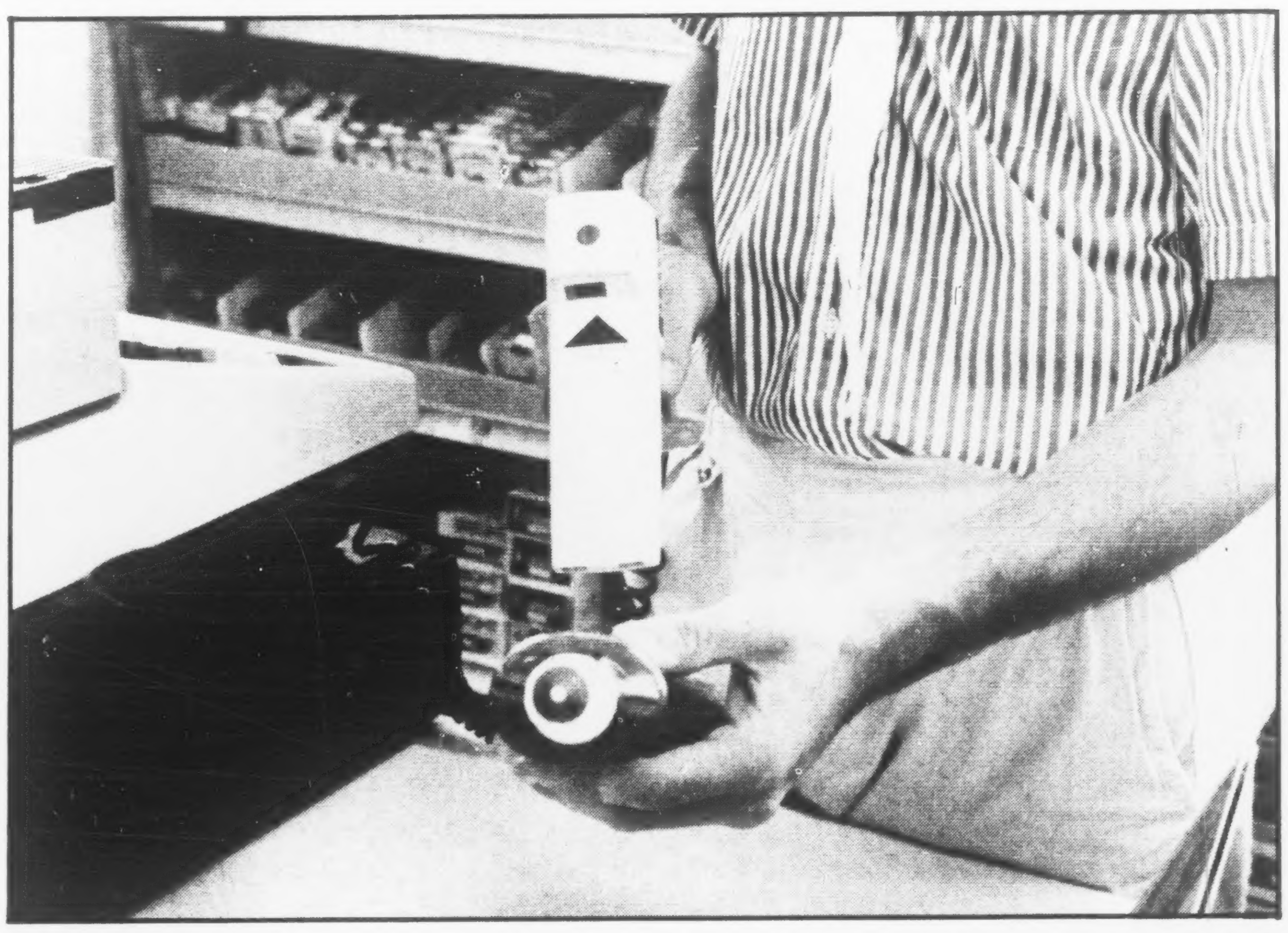
Commercially available software like spreadsheets, word processors, sign makers and graphic programs have made a drug store's personal computer an invaluable source for mundane managerial tasks.

The personal computer has made its way to the store manager's desk as well.

With special software, store managers can keep track of salaries, schedules, sales figures and a variety of other barometers of profitability.

Ultimately, the goal of most computer suppliers is to link up the store's pharmacy system and the manager's desk computer with frontend POS systems to provide a totally integrated computer operation.

Computer industry leaders predict computers will eventually answer the telephone when a customer calls a store. Consumers will be able to "dial in" a prescription number from their telephones for pick-up later in the day.



Last year Rite Aid began to install POS scanning cash registers in its more than 1,300 drug stores at the rate of 50 new stores a month.

Pharmacy computers in chain drug stores

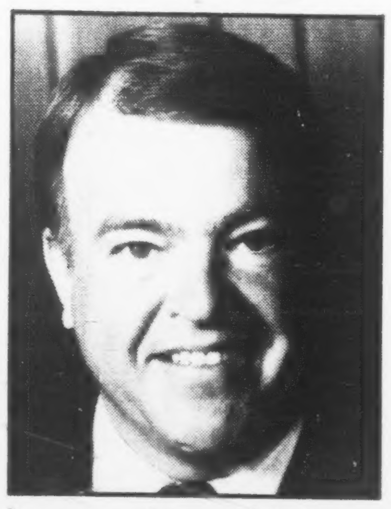
	1985		1986	
Company	No. of stores	% of total	No. of stores*	% of total
Walgreens	1,045	100	1,175	100
Eckerd	1,000+	66	1,550^e	100
Revco	641	34	1,141	60
Rite Aid	400	29	750	60
Thrift	360	93	No est.	No est.
SupeRx	313	57	No est.	100
Hook	240	73	328	100
Peoples	203	25	327^e	35
Longs	200	96	228^e	100
Perry	191**	100	No est.	100
Pay Less NW	175	100	No est.	No est.
Fay's	148	100	158	100
Gray/Drug Fair	144	33	350	78
Big "B"	135	100	163^e	100
Shoppers Drug Mart	103	24	195^e	42
Genovese	75	100	80	100
Medicare-Glaser	72	82	86	98
Standard	69	100	No est.	100
Kerr	49	100	62^e	100
Taylor	47	100	No est.	100
Harco	45	76	55	83
Carls (Revco)	44	100	No est.	100
K & B	40	28	72	50
CVS	27	5	No est.	No est.
Begley Drug	24	60	No est.	100
Sentry	23	100	23	100
Crown	17	94	No est.	100
Bartel Drug	15	55	No est.	No est.
F & M	14	100	No est.	No est.
Pharm-Mor	13	100	21	100
Douglas	11	100	No est.	100
Tiffany Davis	6	100	No est.	100
White Drug	3	13	5	21
Duane Reade	0	0	20	77

*Estimated
**Perry's total includes drug departments in 61 combo drug auto stores
Source: *Drug Store News* survey

PERFORMANCE

Drug chain executives make their predictions

Charles R. Walgreen III
chairman and ceo , Walgreens



We expect to continue our aggressive expansion pace throughout the balance of this decade. This year alone, we will open more than 130 stores, making 1986 the greatest expansion year in our history.

We are particularly optimistic about the future of our health care business. In 1984 Americans spent about $400 billion dollars—nearly 11% of our Gross National Product—on health care. This figure is expected to double by 1990.

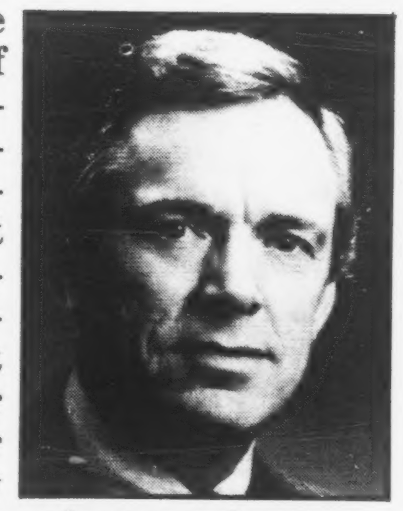
As we look ahead, we see an aging population, the introduction of many new drugs, an increase in self-medication and home diagnostics, and the conversion from name-brand to generic of several high-volume drugs. All these factors bode very well for the drug store industry in general. We feel that Walgreens—with its established pharmacy computer system, convenient locations and strong customer recognition—is in good position to benefit.

Challenges? Improve merchandising, especially in seasonal and general merchandise areas. Maintain technological leadership with the development of our in-store office computer system. Improve productivity through tight controls of inventory and expense, labor-saving technology, and the benefits of expansion in major markets.

And perhaps the most important challenge—recruitment of quality store employees. As the American economy becomes increasingly service-oriented, retailers are headed into a more competitive job market. Nine out of 10 new jobs between now and 1995 will be in services. At the same time, the number of 16- to 24-year-olds, a traditional labor source for retailers, will decrease from 24% of the population in 1975 to just 14% in 1995. If we are to maintain and expand our customer service levels—an area in which Walgreens is *very* determined—we will need to be both aggressive and creative in our recruitment efforts.

How is the strong U.S. economy impacting business? Retailers in general do not appear to be experiencing a big boost. Forecasts call for real annual retail sales increases of just 3% to 4% over the next year. However, based on our own past performance and the potential we see for the drug store industry, Walgreens should definitely exceed that growth rate. We are optimistic about our company's performance, both near- and long-term.

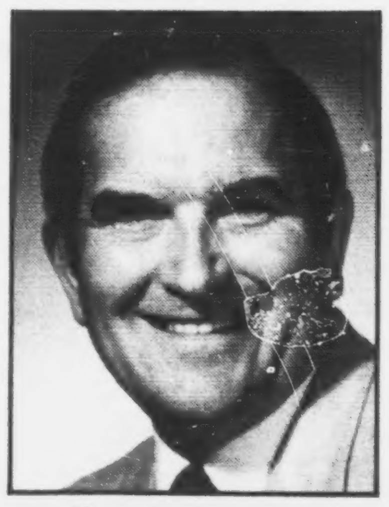
Stewart Turley
chairman and ceo , Jack Eckerd Corp.



With the continuing of the moderation of inflation, stabilization of interest rates and a reduction of gasoline prices at the consumer level, this year should show improvement over last year for the industry. Although there are some geographic areas of our country with ongoing economic problems, the continuing emphasis on federal budget balancing and deficit reduction should have a positive impact on the economy. While we anticipate economic growth, we will remain intensely competitive and experience further consolidation in the industry.

The future of the chain drug industry depends on our ability to implement a strategy to meet the consumer's changing needs. Our strategy must address merchandise selection, customer service and shopping convenience. Following our recently completed transaction, we will be focusing our attention on our basic business—drug stores. We will continue to actively expand in existing markets by opening new stores while also undertaking a major store remodeling program throughout the company covering the next three to four years.

Donald D. Beeler
president , Snyder Drug Stores



The farmers' economic problems will continue to affect our rural (corporate and independent retail) stores, which will result in soft sales and profits in some of those stores. Overall, we expect the economy to have a minimal effect on our store operations.

Obviously, the successful completion of our LBO is the biggest challenge facing Snyder's in 1986. Aside from that: solidifying our position as the leading drug wholesaler and retailer in our market area.

I am thrilled with the quality of the people we have at Snyder's. Our market share is strong. We know what we are and what we do best. Our wholesale operation is without equal.

Alex Grass
chairman, president and ceo , Rite Aid

We continue to expand our relative position in the drug store industry. The U.S. Department of Commerce indicated that drug store sales volume in 1985 totaled $46 billion, an increase of 6.6% over the previous year. Our drug store revenues advanced 13.6% to $1.47B.As has been the case since opening our first store in 1962, we continue to grow much more rapidly than the industry.

Last year included extensive development and investment for the future. Major expenditures were made for video cassette rental departments and the addition of point-of-sale cash registers and pharamcy computers.

Video cassette recorders have become the fastest-selling home entertainment device. Over 24 million units are now in use, and it is anticipated that an additional 12 million will be sold this year. It is expected that ultimately almost every household with a television set will also include a VCR. Because of the convenience provided by our neighborhood locations and smaller stores, Rite Aid is ideally located to offer video movie rentals.

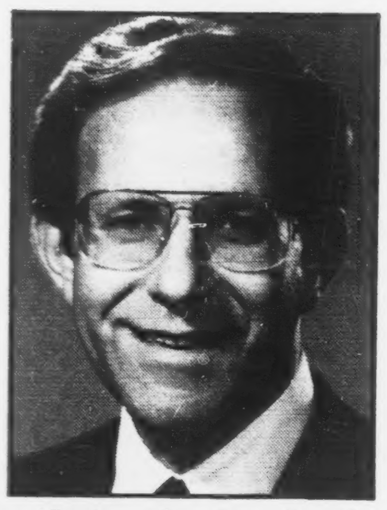
Fiscal 1986 included a major step up in our expenditure for point-of-sale cash register systems. The hardware cost of approximately $20,000 per store is well below that of comparable equipment. However, startup and installation costs during the year totalling $1.8 million have been charged to earnings. We are confident that this expenditure will be more than justified as operating efficiencies are refined and developed.

We are planning an aggressive new drug store opening program. With the general improvement in mortgage rates, development activity is beginning to increase at a more rapid pace. This is especially important to us because of the large number of freestanding drug stores that we either build or lease from landlords.

This fiscal year, we anticipate the addition of 85 stores within the current 20-state trading area. The majority of these sites will be in strip shopping centers anchored by a regional supermarket chain. However, one-third of the stores will be freestanding buildings with adjoining parking lots, bringing our freestanding store count to over 200 units.

Rite Aid, although principally a drug store chain, is now prepared to expand all of its operations. The past year did not meet our expectations; however, much of our activity provided a solid underpinning for the future. We therefore look to fiscal 1987 and beyond with great enthusiasm and confidence.

Jack A. Robinson
chairman and ceo , Perry Drug Stores



As we continually review our policies in merchandising, purchasing, advertising and other disciplines in trying to achieve the best economies, we tend to forget at times that we're in a business to serve people.

More importantly, we are in a business to serve some people who are in varying degrees of stress—depending on the severity of their illnesses.

So it is important periodically to take inventory of our obligations to customer-patients, particularly as we opt for more technology in the pharmacy.

We now have computer terminals to assist pharamcists. We have machines which count pills. Many of us have installed other technological improvements.

And, I am afraid, at times we fail to emphasize the human element of our business. It is time to look at our roots. It is time to take a look back when the relationship between pharmacist and customer-patient was valued one. It is time to attempt to rekindle the spirit among our pharmacists to restore them to a position of trusted adviser and counselor.

Filling prescriptions is an important function when it is accomplished with all the humanitarian instincts it deserves. Computers cannot resolve the doubts and concerns of our customers. High technology cannot change despair to hope.

I am confident that if we concentrate on re-establishing the valued and historic relationship between pharmacist and customer-patient, we will improve the service to all those who walk through the doors of our stores. The future of our industry lies in how we service those who depend on us.

We can adopt the most sophisticated policies as well as install high-complex technology. But unless we enjoy the trust of our customers, our efforts will prove futile.

The future of our industry—for the rest of this century and beyond—rests in recognizing our obligation to those who depend on us.

PERFORMANCE

Industry leaders discuss long-range challenges

Continued from page 98

Sheldon W. Fantle
chairman, president and ceo, Peoples Drug Stores

The economy has significant impact on drug store operations inasmuch as the amount of discretionary dollars is very important to the chain industry. There are four major factors which will affect the economy, some of which are under control and some of which are not. On the positive side, inflation seems to be pegged at about 4%, which is good, and the dollar is moderating against foreign currency, which should be a plus to the competitive posture of the U.S. in world trade, which is also good.

The two negatives as I see it are the balanced budget and tax reform, which will certainly affect our economy due to uncertainty, and these I do not feel will be reconciled in 1986. This is bad. The citizens of our country must have a reasonably sound comfort level before they begin spending their discretionary income, and on balance, I would consider this a push.

Our biggest challenge is to structure our company so that we can be competitive in today's volatile environment, thereby being able to maintain and even increase market share. We are looking at every expense item and reevaluating the manner in which we do business, in order to posture ourselves as a value-oriented retailer.

We have a great deal to be optimistic about, as we have clearly established a position of dominance in the major markets which we serve. We have an outstanding cadre of executives in our company, and we are financially able to take advantage of any opportunity which may present itself.

Frank Newman
president, F & M Distributors

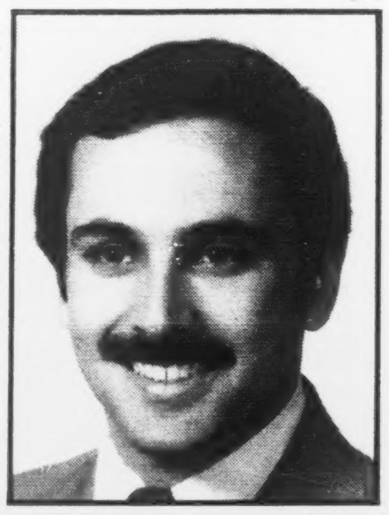
Low interest rates are always a positive impulse to the consumer's buying mood, and as long as they continue, retail sales will benefit. The combination of low interest rates, lower fuel costs and the resultant continued low inflation will reduce pressure on disposable income, which also bodes well for retail sales.

Our challenge continues to be that of growing well. By the end of 1986, we will have grown in size 225% over two years. Our 1986 growth rate alone will be 52%. That kind of growth challenges the organization to do many things well. Our staffing, recruiting and training systems and distribution infrastructures will necessarily receive much management attention to ensure that we don't simply grow, but rather grow well.

As deep discounting comes of age, it is apparent that our types of stores are not as lethal to conventional drug stores as many had thought. Our business comes from three large classes of trade and is not lethal to any of them. Customers see us as an alternative to discount stores, drug stores and supermarkets, in that order. Our customer is motivated by price and not by service.

The conventionals are beginning to realize that we are not lethal competitors. We have a very viable business that does not threaten any competitor's core customers. This means that we can broaden our concept of market share to include a far larger universe of retail channels.

Tom Rosenthal
executive vp, Standard Drug



The strong economy during the past few years has led to the construction of a large amount of retail square footage in our markets and to an increase in competition. This prompted a decision to increase our advertising to maintain our position in the market. The competition which has entered our area has included some of the new formats of retailing such as deep discount drug stores and wholesale clubs. No decision as to a change in the format of our stores has been made.

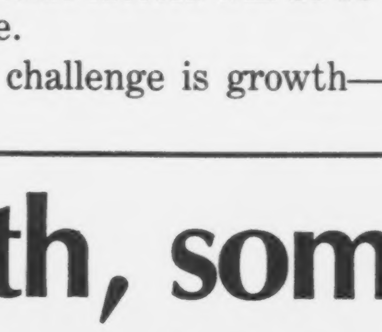
The slowdown in inflation will make operating the stores more challenging. Any same-store increases will come from true unit increases, which are sometimes difficult to obtain in mature locations. This will mean that expense control will be very important in determining bottom-line profits. Working within our company to translate the importance of expense control in all areas will be more important than ever before.

The growth which we have experienced over the last few years has put a strain on our ability to service our stores efficiently from our distribution center. This year, we plan to concentrate a great deal of energy in improving our internal operations. An addition to our distribution center is planned and will hopefully be on line in the fourth quarter of 1986.

We have recently purchased new hardware and software to improve our purchasing and distribution functions. The better part of 1986 will be spent bringing the system on line and learning its capabilities. When the system is fully operational it should provide us with the information to make improved marketing decisions in the years ahead.

As Standard enters the rest of the 1980's, we are well poised to meet the challenges ahead. In each of our major markets we have managed to find ways to compete with our major competition and carve out for ourselves a substantial niche. With our experienced personnel adapting to the rapidly changing environment of today's drug store business should be possible. As a small but flexible organization, we expect to meet those challenges and continue prospering.

Robert J. Begley
chairman and president, Begley Company



Begley Co. sees very little change in the impact from the economy in 1986. From all indications, the economy will be stable, with a slight movement in the interest rates, and any major increase in volume from economic factors will be regional in nature.

The biggest challenge is growth—both identical stores and new stores—with a relatively flat economy, good new locations being extremely expensive and the acquisition market of good stores being limited. The only solution to the challenge and the responsibility by Begley Co. is major market share emphasis, that is, targeting on Begley customers and maximum effort to respond their wants and needs.

It would be better to discuss what we are pessimistic about, because we have many things to be optimistic about. The single biggest problem we see is the national debt and all that implies.

Some exec changes are smooth, some turbulent

The top echelons of the chain drug industry saw a number of changes in 1985; some were smooth and others turbulent as industry execs jockeyed for position among a handful of the nation's top chains.

One of the smooth transitions was the recruitment of William B. Edwards, the 44-year-old former F&M exec, to Revco as its new president and coo last June.

About two months after Edwards joined Revco, Bernard Marden and Isaac Perlmutter, the two Odd Lot principals who once owned nearly 12% or 4.4 million shares of Revco stock, were given their walking papers in a transition that was less than smooth, but agreeable to both sides.

Another difficult transition was the departure of Al Towle from Dart Drug in early 1986. Towle's parting was apparently the result of tensions between him and chairman Stephen Hansbrough and vice chairman Joe Santarlasci.

A much smoother transition occurred at 430-store Adams, the Pawtucket, R.I.-based chain owned by MacAndrews and Forbes through its purchase of Pantry Pride last May.

James Salmanson, the newly appointed 40-year-old president and ceo of the chain, resigned his post only four months after being named to the helm of Adams. His departure in December ended his family's 53-year association with the drug chain it had founded.

Salmanson's resignation was voluntary, and MacAndrews and Forbes had been pleased with his performance.

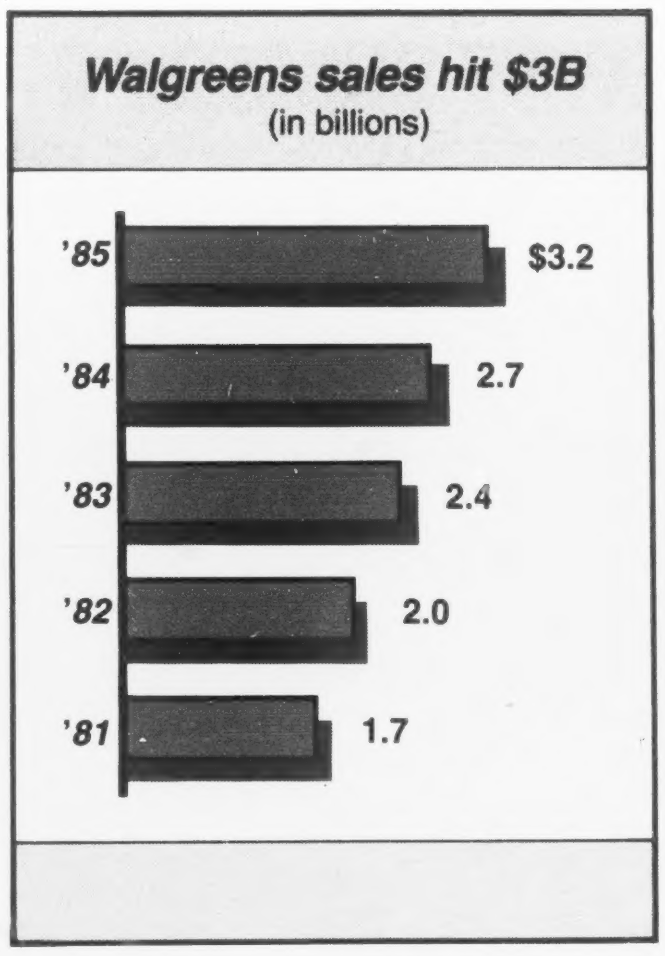
Salmanson left as soon as he did because of a business opportunity that opened up sooner than he expected. The owners of Adams looked outside for his successor and chose William Sudhaus, an executive with a subsidiary of Drexel, Burnham, Lambert in New York, as the new president and ceo of Adams.

Executive turnover has been the rule for Gray Drug Fair, a division of Sherwin-Williams, and 1985 was no exception. With little fanfare, Jim Mastrian was named president and general manager of the 425-store drug chain last October. He took over the post from Carl Bellini, the Sherwin-Williams group vp.

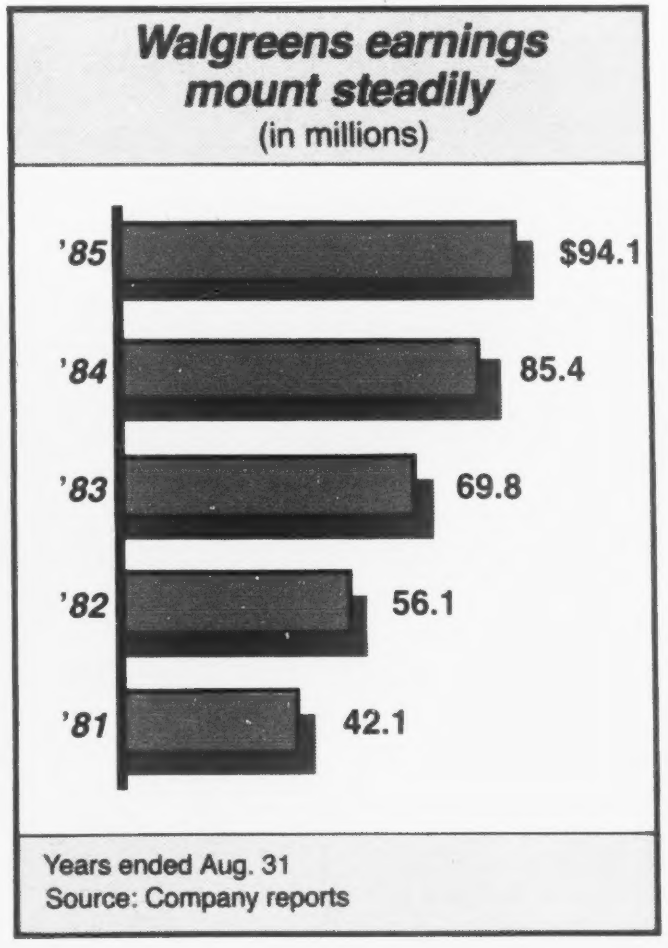
Elsewhere, Melville, N.Y.-based Genovese Drug Stores looked outside to fill its No. 2 role in the management structure. Chairman Leonard Genovese lured Patrick Edwards, a senior exec at Allied stores, as president and coo of the 72-store chain last September.

PROFILES

Walgreens crests $3B in sales, opens 106 units



Walgreens sales hit $3B
(in billions)



Walgreens earnings mount steadily
(in millions)

Years ended Aug. 31
Source: Company reports

DEERFIELD, Ill. — Walgreens last year became the first drug chain to break the $3 billion sales barrier, and there are no signs that its record-setting pace is letting up.

In the first quarter of fiscal 1986, ended Nov. 30, Walgreens' sales increased 14%, while year-to-date sales through March rose 17.3% to $882.5 million.

Meanwhile, first-quarter earnings increased 10.4% to $17.2 million, at a time when the performances of a number of other top chains were faltering.

Expansion also quickened. After opening a record 106 stores in fiscal 1985, Walgreens unveiled a total of 64 in the first quarter, another record. Thirty-eight of them were new, and 26 were acquired from Ribordy Drug, Valparaiso, Ind.

Walgreens plans to continue its expansion drive in 1986. The chain will open at least 120 new stores in existing markets, but concentrate most heavily in Florida, California, the Southwest and the Midwest.

Individual markets targeted for significant expansion include Oakland, Calif.; Phoenix; Austin, Tex.; Minneapolis; St. Louis; and Tampa/St. Petersburg, Fla.

Walgreens also increased its presence in the New York market last year. It opened a third New York City store, in the Borough of Queens, in December, and plans to open three more Big Apple units during 1986.

"Our expansion is self-driven," said president Fred Canning. "We don't base plans only on where development is taking place . . . we decide where a store is needed and then seek the best site available, whether it's an existing building, an empty lot or a proposed strip center. We tailor stores to fit their neighborhoods."

The company is also committed to growth by acquisitions, particularly large ones that provide strong, immediate market penetration. Ribordy Drug, the Indiana chain acquired last fall, is one example. Walgreens has also been mentioned as an ardent suitor for the 67-store Medi Mart, which was placed on the block earlier this year by parent Stop & Shop. The Medi Mart acquisition would make sense, because Walgreens considers the Northeast an "underchained" target of opportunity.

"We are very serious in our quest for acquisitions of all sizes," said Dan Jorndt, senior vp and treasurer.

Existing stores remodeled

In its drive to expand, Walgreens has not ignored existing stores. It plans 70 major remodelings and hundreds of minor ones in 1986. By comparison, there were 61 major remodelings last year. Over the past three years, 162 older units—or 15% of the chain's stores—have been remodeled. Currently, some 37% of Walgreens' store base consists of new or substantially renovated units.

With such heavy growth, the company's distribution centers will require additional space. More than 100,000 sq. ft. will be added to Walgreens' 130,000-sq.-ft. Houston center. The 140,000-sq.-ft. Orlando center and the 100,000-sq.-ft. Windsor, Wis., center also will be enlarged.

Walgreens has five major computerized distribution centers (in Memphis; Houston; Flagstaff, Ariz.; Orlando; and Windsor, Wis., a full-case warehouse (in Berkeley, Ill.) and five public warehouses. Some 97% of its stores get two-day service from these centers. About 90% of all prescription drugs go through the Walgreens distribution centers.

Walgreens is also digging deep to computerize its stores. More than $3 million was spent on a 72,000-sq.-ft. computer center, and Walgreens plans to invest another several million in its systems development project, the Walgreen Information Network. It hopes to link all Walgreens stores, offices and other locations by 1990. By 1987, a bank card authorization system will be in place, and point-of-sale scanning is also under evaluation.

Sundries trimmed

In the product area, Walgreens is trimming down its sundry merchandise and beefing up its home care category. Currently, 32% of sales come from general merchandise. Some 166 Walgreens stores have complete convenience food sections. Photofinishing, an important traffic-builder, has brought 20% annual increases.

But it is prescription sales that continue to give the chain's drug store division its leading edge. In fiscal 1985, prescription sales rose 21%, and in the first 1986 quarter they were up 27.9%. Prescriptions accounted for 20% of the company's sales volume in 1985. The increases came in spite of an aggressive pricing strategy in prescriptions to develop a strong customer base in new stores, one financial analyst reported. By 1988, the company expects to do $1 billion in prescription sales—about $1 million a store. Walgreens currently fills about 3½% of the country's retail prescriptions.

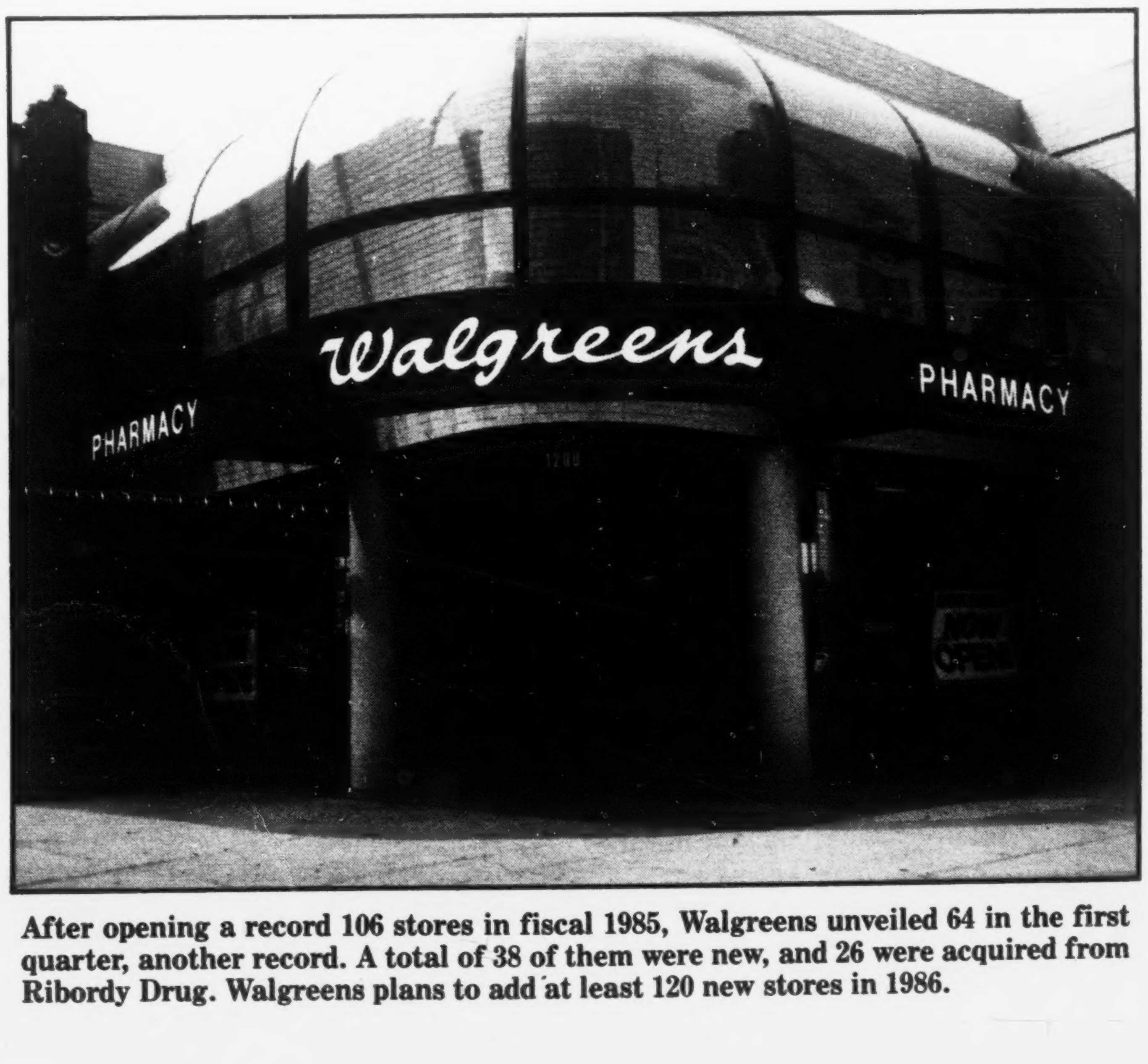
The chain has also moved into the prescription mail-order business through a contract to provide service to 100,000 customers of Mutual of Omaha.

For the fiscal year ended Aug. 31, 1985, Walgreens sales rose to $3.2 billion, from $2.7 billion a year earlier. Net earnings increased 10% to $94.2 million from $85.4 million. Comparable store sales increased a healthy 8.5%, while drug store division sales registered a 15.8% gain.

Fiscal 1985 marked the 11th consecutive year that the chain reported record sales and earnings.

While deep discounters have had a major impact in some Walgreens markets, including St. Louis, Phoenix, Houston and Chicago, the company showed market share gains in 67 of its 80 markets last year.

Presently, 32% of Walgreens' sales come from general merchandise. Walgreens has been trimming down its sundry merchandise and beefing up its home care category.

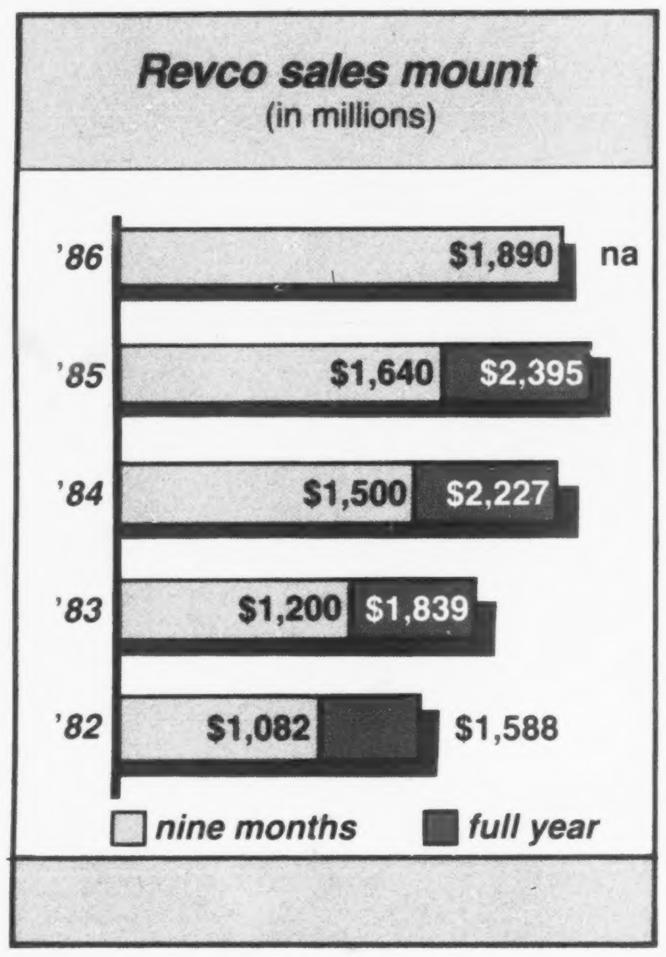


After opening a record 106 stores in fiscal 1985, Walgreens unveiled 64 in the first quarter, another record. A total of 38 of them were new, and 26 were acquired from Ribordy Drug. Walgreens plans to add at least 120 new stores in 1986.

Revco proposes buyout; chain refines operations

TWINSBURG, Ohio — Top Revco management, with an investor group, proposed a leveraged buyout in March, becoming the latest in a string of drug store industry buyout candidates.

In Revco's case, the proposal followed several months of industry speculation that management would seek private ownership, faced with possible hostile suitors. Rumors were fueled by Revco's depressed 1985 fiscal performance, which resulted in a 58% earnings decline in the year ended June 1, 1985.



In fiscal 1986, the chain began laying the groundwork for the efficient, profit-oriented operations that analysts said management must stress to make the buyout work. As the Revco Board of Directors convened a committee to review the offer, observers predicted that a privately owned Revco would concentrate on fine-tuning operational initiatives laid in place during the year, with more conservative store unit growth and merchandising and operations refinements.

A $1.16 billion buyout package, offering $33 per share plus preferred stock valued at $3, was seen as reasonable among the investor community, after the stock rose about 10 points since August.

Industry watchers saw the plan partly as a pre-emptive maneuver against potential raiders. They felt the chain was vulnerable to takeover, based on the value of its divisions and the depressed share quotations.

The management group—with William Edwards, the former president of the F&M deep discount chain, who was named Revco's president in June, and cfo R. Carroll Hudson—contributed $10 million. They stand to make money if the drug store business continues to improve, analysts said.

The necessary improvements in drug store performance arrived on cue. Revco produced third-quarter results with solid growth in drug store sales. Earnings were up 20%, breaking a string of six consecutive negative earnings comparisons.

Earnings hit $19.7 million, up from $16.3 million in the previous year's quarter. Sales rose 17% to $707 million from $605.4 million. Even more important, same-store sales were up a healthy 10.3%.

Year-end earnings gauged

With year-to-date earnings at $34.5 million, analysts foresaw year-end earnings ranging from $50 million to $60 million, arresting the earnings slide of 1985, in which profits—reduced by a $3 million fourth-quarter loss—totaled $39 million at year's end.

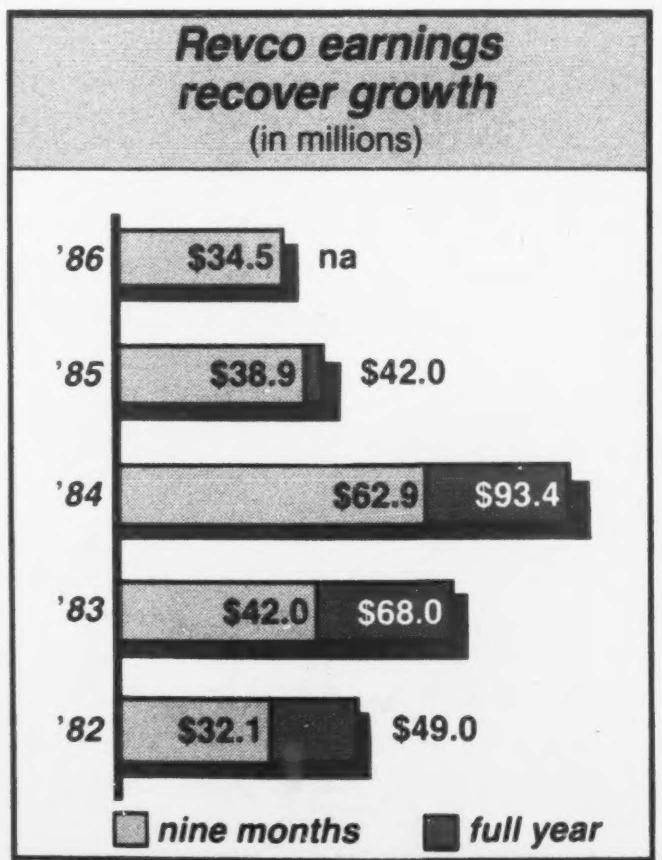
The numbers capped a fiscally tumultuous nine months in which earnings were initially hampered by a price reduction program on non-Rx items in key eastern markets begun in the third quarter of fiscal 1985. Store gross margins began to improve when Revco revised the program, to slash prices on a store-by-store basis in selected markets in October. Officers conceded that in some markets they had failed to draw the volume needed to offset the price cuts.

Revco quickly put the worst year in its history behind it. Sidney Dworkin announced the chain was re-examining all aspects of the company. To further that goal, Edwards in June was brought over from F&M as the No. 2 man, to focus on refining merchandising and store operations and to relieve Dworkin of some management responsibilities.

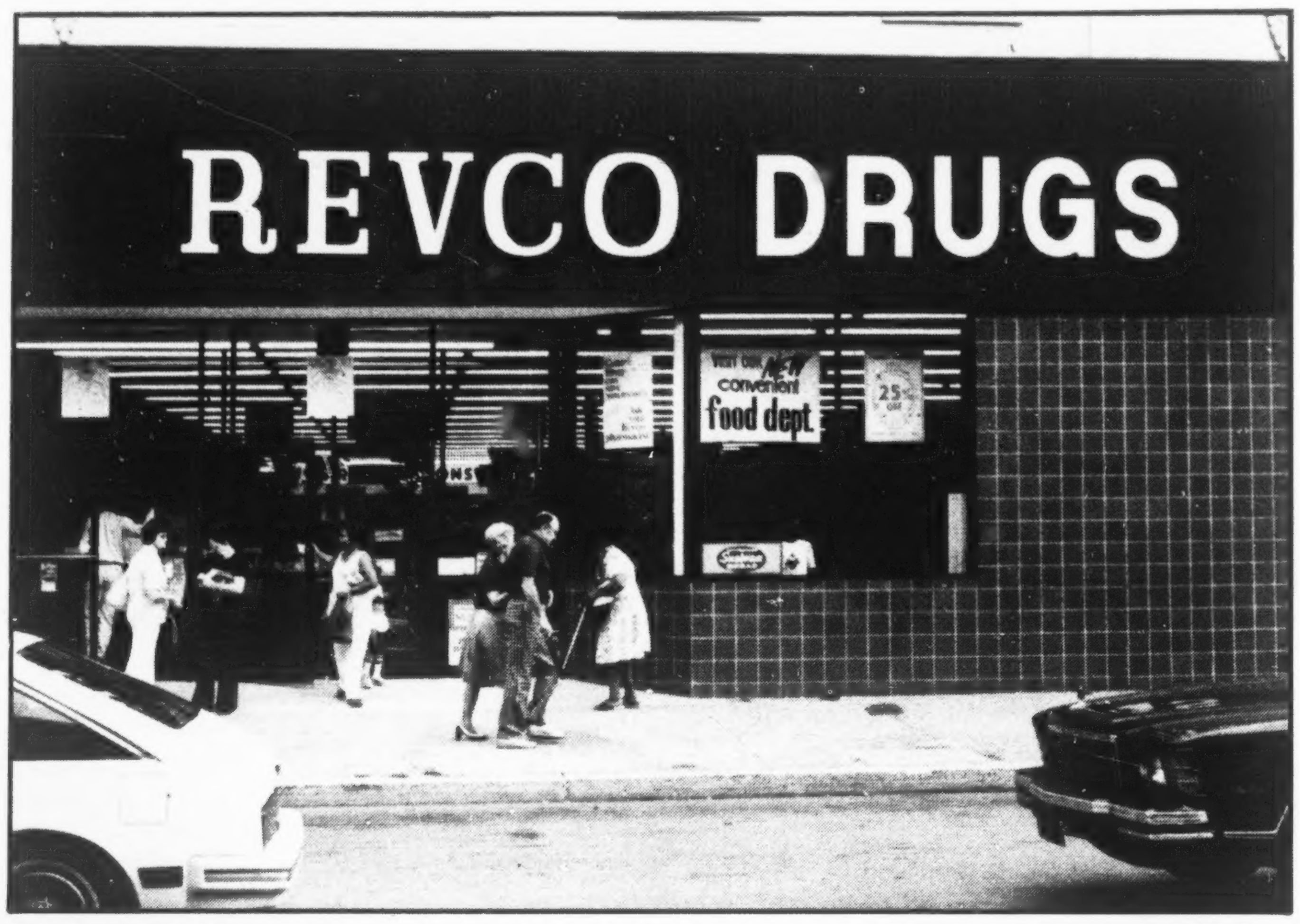
Edwards was put in charge of the Odd Lot off-price division and the Get-It-For-Less deep discount stores. He implemented adjustments in merchandising, store design and layout in the conventional units.

Acquires Carl's

Revco ended the third quarter with 1,988 stores, after opening a net of 121 stores in the previous 12 months, including the July acquisition of the 46-store Carl's Drug chain in New York, New Hampshire and Vermont. Marc Dworkin was named Carl's president.



Source: Company reports
Year ended in June



Revco ended the third quarter with 1,988 stores. Drug store earnings were up 20% for the quarter, breaking a string of six consecutive negative earnings comparisons.

While Carl's—operating under its own name—proved profitable, success with Odd Lot remained elusive. In the third quarter, the division continued as a drag on profitability, with below-budget 10% sales growth and an operating loss of 6¢ per share.

But the chain remained committed to making Odd Lot work, after it severed its relationship with the division's former owners, Bernard Marden and Isaac Perlmutter, by buying out their shares of Revco stock in August.

In March, Edwards named John Crowley, 59, a marketing consultant and former W. T. Grant retailer, as president of Odd Lot. It added 17 stores, up to 152 in 12 months.

Revco continued its cautious experiments with deep discounting. It added two new Get-It-For-Less Stores, one in Tulsa, Okla., and one in Akron, Ohio, in March, bringing its total to four.

The chain launched its first in-store scanning test in August and continued rolling out pharmacy systems. Scanning was also tested in a Get-It-For-Less unit, monitored by a research marketing company studying product movement. In March, 600 stores were equipped with pharmacy systems, with 200 scheduled for fiscal 1986.

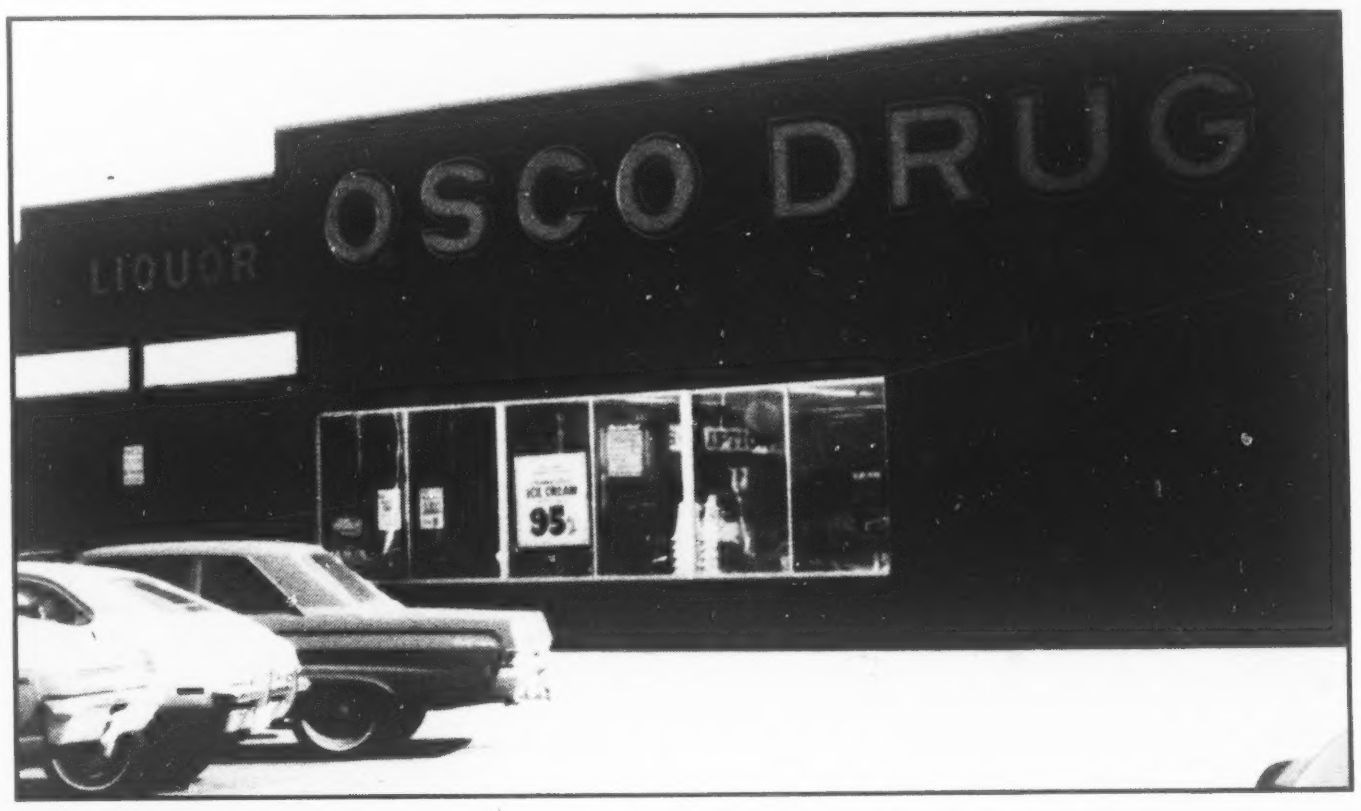
Revco broke ground on a new Dallas warehouse, a 500,000-sq.-ft. unit that will serve 450 stores in the state. The chain planned to add 120-125 stores in the next year, concentrating growth in the Sunbelt states of Texas, Florida, Georgia, North Carolina and Virginia.

REVCO
CONVALESCENT AIDS

Earnings were initially hampered by a price-reduction program on non-Rx items in key eastern markets begun in the third quarter. Store gross margins began to improve when Revco revised the program to slash prices on a store-by-store basis in selected markets in October.

PROFILES

American consolidates; Osco to go nationwide



American Stores' corporate plan continues to be to meld all of its 531 drug stores under the Osco banner by October.

American Stores varied retail formats

(store counts at FY end Feb. 1, 1986)

Combination food/drug stores		Food stores		Drug stores	
Company	***No. of stores***	***Company***	***No. of stores***	***Company***	***No. of stores***
Skaggs/Alpha Beta	100	***Acme***	299	***Osco, Sav-On***	531
Jewel/Osco	121	***Alpha Beta***	244		
Buttrey/Osco	3	***Jewel***	96		
		Star	45		
		Buttrey	54		
Total	224	***Total***	738	***Total***	531

Source: *Drug Store News* research

SALT LAKE CITY — American Stores is pursuing the American dream: a united coast-to-coast $3 billion retail drug chain involving Osco, Sav-On and Skaggs stores.

The corporate plan continues to be melding all 531 drug stores under the Osco banner by October 1986. Freestanding Skaggs stores have already been converted; Sav-On has been slower to change because it means relinquishing an established name in the dense southern California market.

Sources close to American Stores expect such consolidation to produce buying, distribution and expense control synergies in the company's retail drug business. American doesn't break out divisional contributions to corporate sales and earnings, but close estimates peg more than one-half of corporate earnings coming from drug and combination food/drug stores.

American sales rose to $13.9 billion in the fiscal 1985 period ended Feb. 1, 1986, up from $12.1 billion a year ago. Net income slid to $154.5 million from $185.5 million a year earlier, though the year-ago figure included a one-time $51 million gain from the sale of Rea & Derick and other stores.

Current earnings figures reflect an unusual 123% increase in its full-year LIFO charge to $16 million. American decided in the fourth quarter to value drug store and general merchandise inventory on a LIFO basis, bringing the corporate share of inventory on LIFO to about 80%, up from 56% last year.

American, in addition to forming a national Osco drug chain, is directing more attention toward its Jewel/Osco and Skaggs/Alpha Beta combination food/drug stores. American plans 14 new combination stores in 1986, adding to its lead as the nation's largest operator of pure combination stores, with pharmacy, cosmetics and expanded health & beauty aids under the same roof as its food store.

In addition, 20 "super" Osco drug stores and four expanded supermarkets—a new format for Acme—are slated for this year. These 49,000-sq.-ft. Acmes carry more high-margin, high-ticket general merchandise, such as cosmetics, H&BA and OTC products, but so far no prescriptions.

Combination stores and "super" drug stores both yield about a 20% return on investment, according to Wall Street sources, but combos achieve that yield working on a 3% pretax margin, while the "super" Oscos work on an 8% pretax margin.

Most combo growth will occur in Kansas, Oklahoma, Texas and California in 1986. However, a company spokesman said American is also eying more Southwestern and Midwestern markets, where growth potential exceeds the national average.

Spending on combos

Analysts estimate that 30% of American's $280 million capital expenditures budget will be spent on combos this year, as American refocuses its building efforts. During the first nine months of 1985, spending on new and remodeled stores fell 30% year-to-date, as American focused on reducing debt.

Also in 1986, American plans to expand four or five Jewel supermarkets into combos and remodel about 45 stores in total, roughly matching last year's renovation pace.

American's drug store thrust is being attributed largely to Osco president Dick George. It is he, sources said, who convinced American chairman Sam Skaggs that a centralized drug distribution effort would be the most profitable way to supply stores.

In consolidating Osco, Sav-On and Skaggs into a single chain, American has decided to use four distribution centers to supply drug store merchandise and pharmaceuticals to drug stores nationwide. They're in Payson, Utah; Ponca City, Okla.; La Habra, Calif.; and Elk Grove Village, Ill.

Central distribution

It's estimated that Osco handles 80%-90% of its inventory through centralized distribution, compared with Skaggs, 20%, and Sav-On, less than 50%. Buying synergies will accrue to American, but perhaps the biggest advantage is the leverage and potential for advertising a high-margin national private label, sources said.

Close American observers conceded that the same H&BA and pharmacy mix makes sense nationally, but cautioned against the lack of general merchandise overlap between say, New England and Los Angeles.

Overall, gross margins at American have benefited by a shift toward high-margin private label products and prescription business. That trend is expected to continue, as American consolidates its retail drug efforts, expands its roster of combination stores and de-emphasizes its low-margin supermarket sales.

American expansion plans over the next few years, for example, include 5% annual growth in retail square footage. However, combination food/drug stores and expanded supermarkets, which have space for more general mechandise, will grow at a 10% annual pace.

In recent months, American has faced sluggish same-store sales growth because of particular weakness in its Energy Belt markets. American's fourth-quarter and full year fiscal performance was also impacted by an eight-week supermarket workers strike in southern California, one less selling week in the Christmas quarter and its broad extension of LIFO accounting to drug store and general merchandise inventory.

Sav-on
Grand Opening
Sav-on

Sav-On stores have been slower to change to the Osco banner because it means relinquishing an established name in southern California.

Freestanding Skaggs stores such as this one have recently been converted to carry the Osco name. Four distribution centers will supply all the stores when the consolidation is complete.

PROFILES

Eckerd's shareholders expected to approve LBO

CLEARWATER, Fla. — A drastically slipping bottom line at year-end, making the Jack Eckerd Corp. vulnerable to a hostile takeover, prompted the company's management to start fiscal 1986 with plans to take the company private.

At a meeting scheduled to take place April 30, shareholders are expected to endorse plans for a leveraged buyout. The buyout plan was announced by the chain in October, when an investment group comprised of 25 members of the company's management and 32,000 employees agreed to purchase Eckerd.

The group, managed by Merrill Lynch Capital Partners, obtained $1.35 billion to effect the deal. The group is offering shareholders $33 a share, with $28 in cash and $5 in debentures.

As a result of the restructuring, 30 people, including several vice presidents, left the company. Sources said the departures were partly the result of streamlining designed to eliminate jobs that were duplications or no longer necessary and partly the result of the pending leveraged buyout.

The buyout took longer than planned. Questions about tax advantages, raised by the Securities and Exchange Commission, caused two postponements of the shareholders meeting at which the sale is expected to take place.

Because of the delay, some arbitraguers regarded the buyout as somewhat risky. Analysts also expressed concern becuase other recent buyouts (i.e., Beatrice, Macy's and TWA) resulted in bad deals for investors. In addition, the $5 debenture interest rate has not been announced, and analysts are a bit queasy that it may be high. Queasiness also surrounded the price of the stock; it hovered at about $30, a price one analyst said is about a point below what market value would be if the lbo were a done deal (instead of only considered fairly certain).

Dart buys stock

The buyout is an attempt by Eckerd to protect itself from threats of a takeover, such as one it may have narrowly escaped from last year. In a move to push Eckerd into putting the company up for sale, the Dart Group purchased a 5% interest in the company's stock. The purchase followed a particularly poor quarter for Eckerd, and Dart got the stock at bargain rates.

Dart may have been poised for a takeover, as some analysts said, or it may only have been hoping that Eckerd would be forced to sell to *someone*, in which case Dart would have profited from a rise in the stock price. At the very worst, Dart could have been left holding 5% of what was seen as a very undervalued Eckerd stock.

But Eckerd lined up $1 billion in additional credit from its lenders and sued Dart in federal court to prevent Dart from buying additional shares. Dart ended by selling its 5% interest back to Eckerd at $29.50 a share, several points more than it paid, realizing some $55.6 million from the deal, or about $9 million in profit.

Eckerd's repurchase of Dart's 1.884 million shareholding hastened an attempt by Eckerd to streamline its operations by selling off its ailing divisions, American Home Video, JByrons and Eckerd Apparel. Sale of the three problem divisions created a one-time after-tax write off of $61 million.

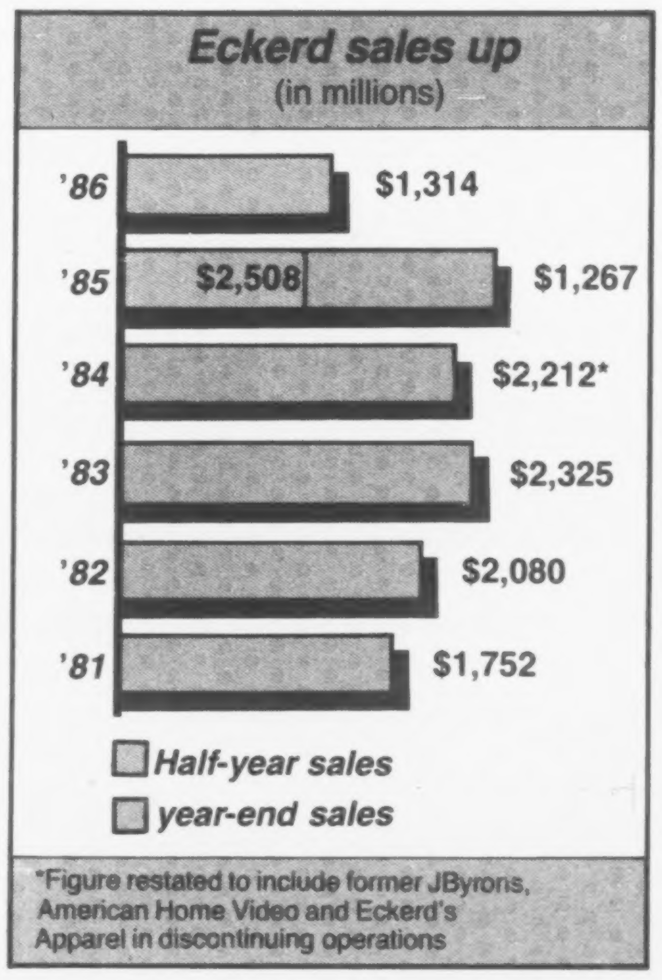
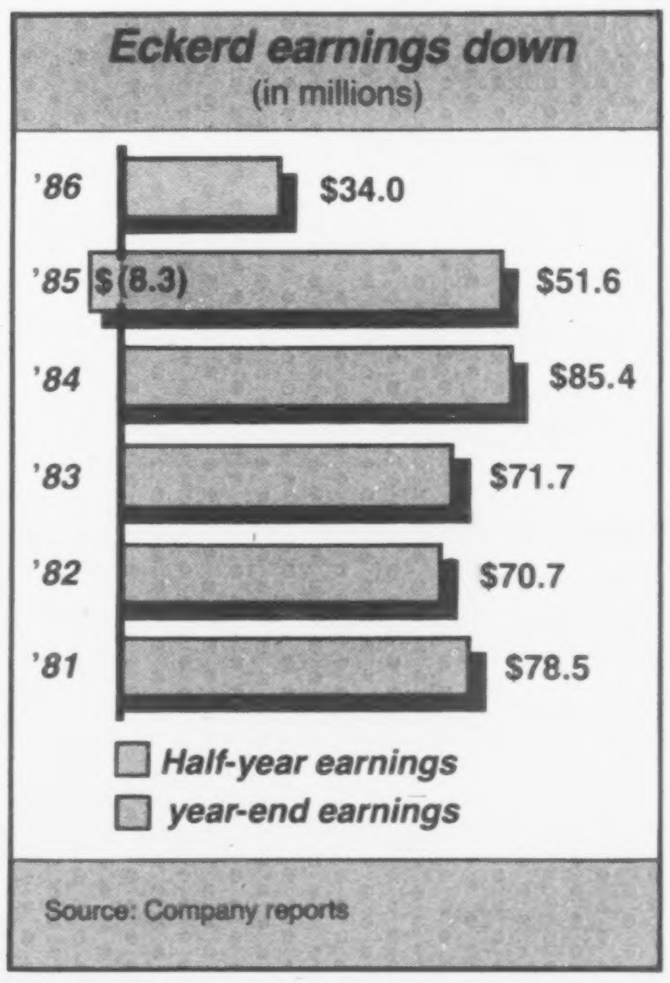


*Figure restated to include former JByrons, American Home Video and Eckerd's Apparel in discontinuing operations



Source: Company reports

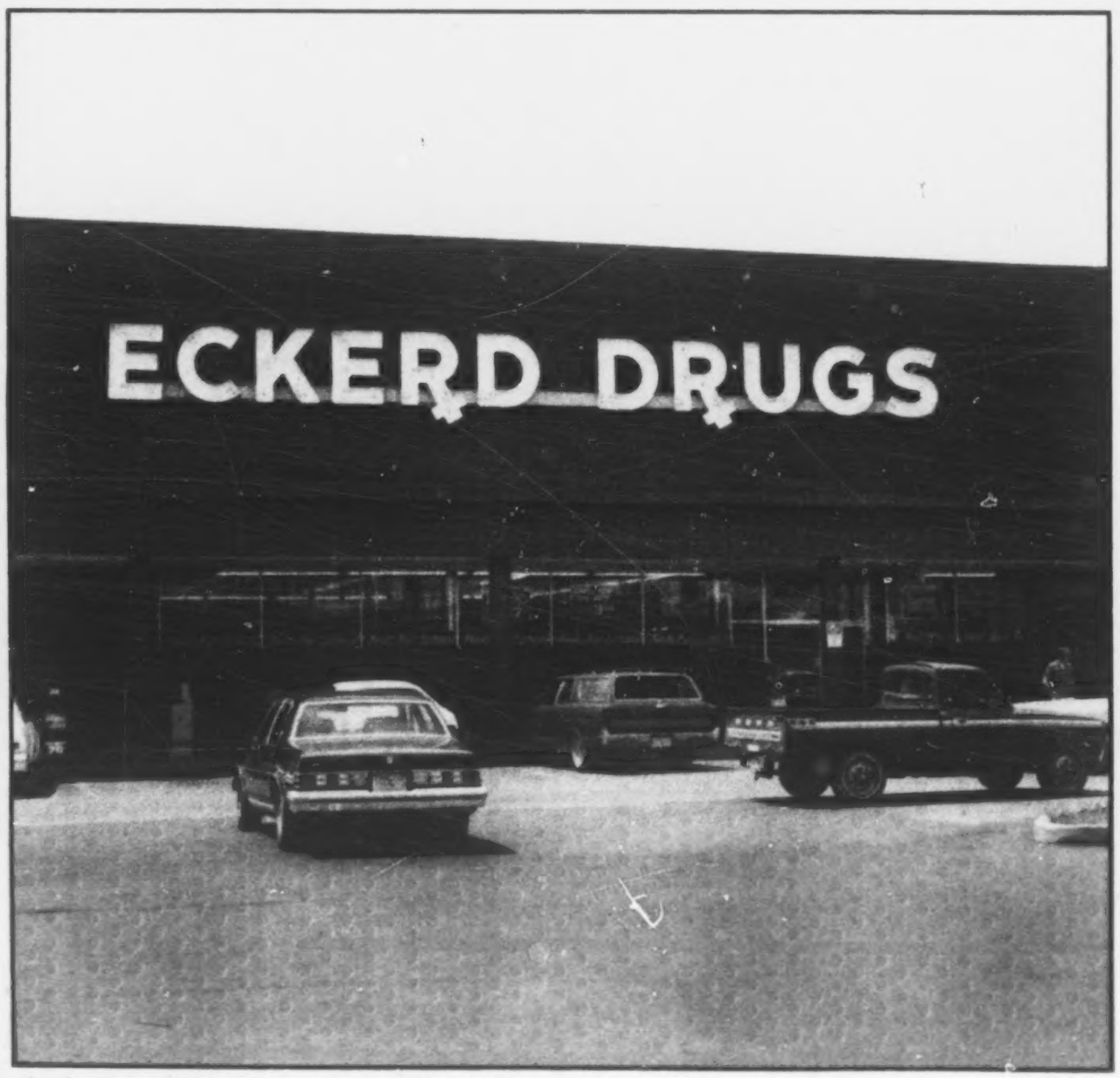
Sale fizzled

After weathering these ordeals, Eckerd announced it was holding "preliminary conversations" with a small number of selected companies about a possible sale or merger of the 1,525-store chain. But no such sale emerged, and, instead, several weeks later, the company revealed its plans to take the company private.

Eckerd's troubles came from a 1985 third- and fourth-quarter earnings plunge due to unusually heavy markdowns on merchandise, lackluster sales and a more aggressive pricing policy. As a result of these, earnings for the year plummeted 30.3% to $58.4 million, from $83.7 million the year before. Sales for the year ended Aug. 3, 1985 rose to $2.51 billion. Factoring in both the $61 million write off from the purchase of Dart shares and the results from the three divested operations, the company came out with a net loss of $8.3 million for the year. The previous year had shown a profit of $85.4 million.

Meanwhile, as shareholders got ready for the long-awaited lbo meeting, earnings continued to drop. A 1986 six-month report from the company for the period ended Feb. 1, 1986 showed earnings declined 34% to $34 million, from $51.6 million the year before. Sales for the six-month period were $1.31 billion, an increase of 3.7% over last year's $1.27 billion.

Second-quarter results showed a 34.6% decline in earnings to $24 million, from $36.6 million in 1986. Sales for the second quarter were up 2.2% to $744.2 billion, from $728.5 billion a year ago.



An investment group comprised of 25 members of Eckerd's management and 32,000 employees have agreed to purchase Eckerd. At a meeting scheduled at presstime, shareholders are expected to endorse the plan for the LBO.

Guy Laroche
CARRERA

Eckerd recently opened two new upscale Visionworks medical eye care department stores and has confirmed plans to open at least another six during the year.

PROFILES

Longs' prospects bright despite 1985 profit dip

WALNUT CREEK, Calif. — Longs stubbed a toe in fiscal 1986.

A sharp drop in fourth-quarter earnings resulted in an overall 6% decline in net income for the year ended Jan. 30.

Although there were legitimate explanations for the fourth-quarter fall-off, analysts were surprised at its depth. Net income was down more than 31% to $8.7 million.

Analysts were nevertheless optimistic about the long-term earnings growth of the chain, which has been a powerhouse in West Coast retailing for decades.

The reasons for the steep decline in fourth-quarter earnings were many, but they included the following:

- The 1986 quarter was shorter by a week than the prior-year period.
- A very heavy store opening schedule—10 new stores in the fourth quarter vs. three in the previous-year period—increased insurance and occupancy expenses. The new stores also helped to lower margins because of promotional activity needed to attract new customers.
- There was a sharply higher LIFO charge—$2.4 million vs. a half-million in the prior period.
- The relatively new California lottery diverted consumer dollars and affected general merchandise retailers like Longs across the board.
- Comparable-store sales increased less than 4% in the fourth quarter, reflecting the softening sales picture in California, which has long been recession-resistant.

Balancing some of these negatives were the sharply higher prescription and private label sales. Longs has been emphasizing both because they provide higher gross margins and help to offset promotional activity in other areas.

Longs' prescription sales currently account for about 12% of total store sales, compared with about 8% some five years ago. And last year, executive vp Richard Scott told *Drug Store News* that Longs was shooting to increase the percentage of private goods to as high as 10% from the current 5%-6%.

In addition, Longs has increased the percentage of goods flowing through its three redistribution centers to about 15% of the total merchandise mix. The proportion may eventually hit 20%. The extra leverage provided by centralized buying has also enhanced Longs' overall gross margin. The company emphasizes, however, that its system of direct-store buying and store autonomy—the cornerstones of its success—will remain intact.

Longs also stepped up the pace of chainwide computerization and expects to have all stores on-line by mid-1986. While the initial investment has been heavy, Longs anticipates long-term gains because of improved pharmacist productivity, faster price updates, better communication between headquarters and store managers, and more effective monitoring of inventory levels.

During the year, Longs opened its 200th store. The San Luis Obispo, Calif., unit was unusual in that it was some 10,000 sq. ft. smaller than Longs' typical prototype of 25,000-30,000 sq. ft. The chain was forced into the smaller format by a local ordinance that restricted size, but the chain conceded it was considering downsized versions of its superstore prototype for smaller markets, just as chains like Pay Less and Thrifty have done.

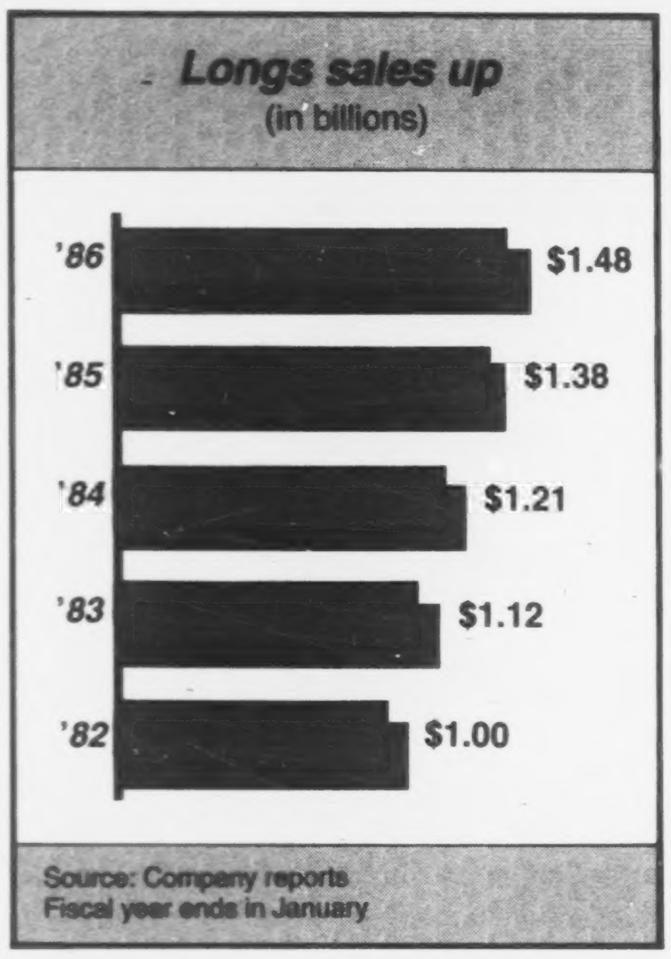
In the fourth quarter, the chain commenced its awaited invasion of Colorado with three store openings. It was the first new state the chain had entered since opening a single unit in Bend, Ore., in 1979, and its first full-scale invasion of a state since entering Arizona in 1977.

Observers expect the Colorado venture to parallel the Arizona experience, which involved a long, difficult battle to build market share against some of the toughest competitors in the country. Colorado, too, is a tough market. Bob Long has pointed out, however, that the state offers some very attractive features for a retailer, including a rapidly growing economy, a diverse and stable labor pool, and a large number of new and affordable homes under construction. Longs says the Colorado stores are so far "meeting expectations."

Longs took several actions last year to avoid a hostile takeover attempt, though observers doubted if the chain, with its high percentage of stock held by insiders (more than a third), would be vulnerable.

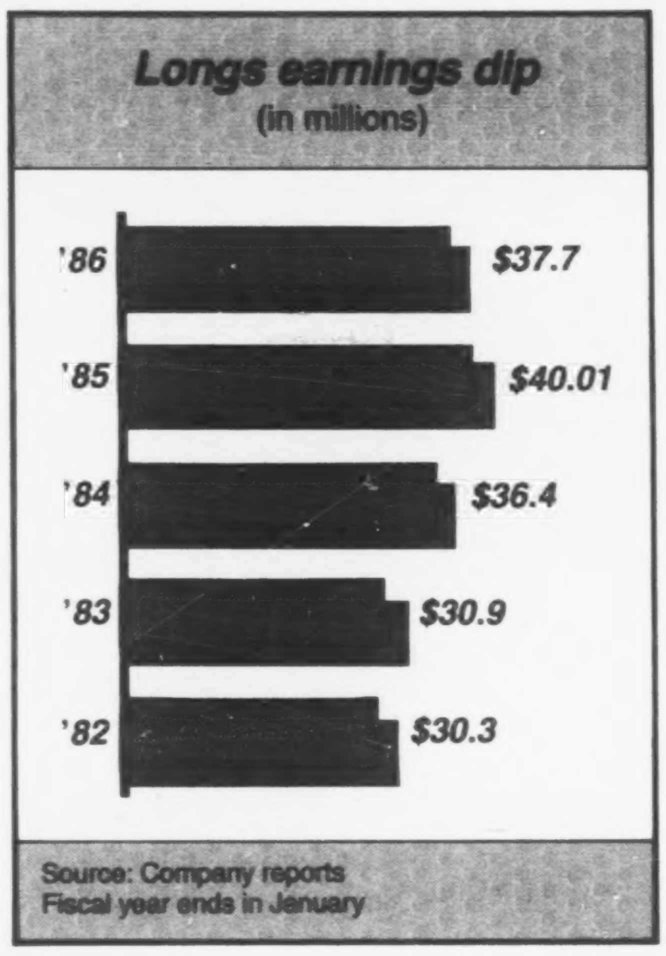
One antitakeover move involved a corporate reorganization and the incorporation of a new holding company called Longs Drug Stores Corp. The change allowed the company to create staggered terms for directors, which, among other things, make it difficult for a raider to gain control of the Board of Directors.

Longs also announced plans to begin buying back up to two million shares of its common stock. The buy-back will not only increase the percentage of insider holdings, it will also enhance the company's earnings per share.



Longs sales up
(in billions)

Source: Company reports
Fiscal year ends in January



Longs earnings dip
(in millions)

Source: Company reports
Fiscal year ends in January

Longs 200th store, in San Luis Obispo, Calif., is 15,000 sq. ft.—a possible prototype for penetrating smaller markets.

The pharmacy counter in the San Luis Obispo store. Longs has increased the ratio of prescription sales to total sales from 8% about five years ago to 12% today. The increase has helped to enhance overall store margins.

PROFILES

Rite Aid expands; adds sophisticated computers

SHIREMANSTOWN, Pa. — Rite Aid Corp. forged ahead with an aggressive expansion program in 1985, while upgrading stores with point-of-sale and pharmacy computer systems and video cassette rental departments.

The chain opened its 1,392nd store by the end of fiscal year, March 1, after adding 117 new units and closing 14 over the preceding 12 months. The country's third largest chain in store units, Rite Aid planned to expand by a net of 85 in 1986.

Alex Grass, Rite Aid chairman and president, advised shareholders in June that growth will continue within the company's 20-state eastern seaboard trading area, because the existing market can support at least twice as many stores.

Rite Aid posted its second consecutive year of declining net earnings, following three quarters of depressed earnings, compared with the previous year.

While 1986 sales hit $1.564 billion, up 15% from 1985, total net income declined 11%, from $69.9 million to $62.5 million, with earnings per share down from $1.69 to $1.52. Net income was affected by a $5.37 million loss resulting from Rite Aid's first-quarter disposal of its Circus World toy chain and from closing its nine Heaven contemporary variety stores.

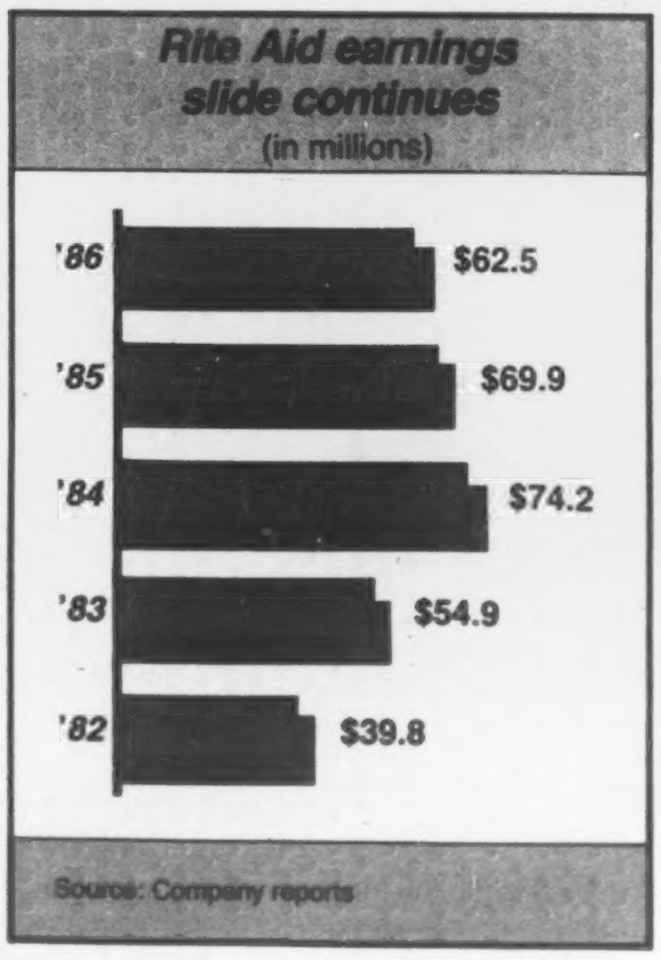
Analysts and company officers noted that earnings were affected by stiff capital expenditures for store upgradings, as well as by underperforming divisions, and foresaw an upswing in performance in the new year, based on the solid performance of the core drug operations.

Super Rite Foods, the wholesale and retail grocery company in which Rite Aid has a 46.8% interest, dealt a blow to third-quarter earnings with a $450,000 equity loss, attributed to losses incurred from defective warehouse computer software. Also, costs mounted from new store openings and from the chain's programs for installing POS and pharmacy computer systems and merchandising video rental departments. Subsiding inflation the previous year and higher interest expenses combined to depress earnings. Also, Rite Aid absorbed the charge related to its first-quarter exit from the toy and variety store business.

FIRST AID
FOOT CARE
BABY NEEDS
SHAVING NEEDS
CANDY
STATIONERY
LIGHT BULBS
RITE AID
A 2 B
DEODORANTS
HAND LOTIONS
CLEANING NEEDS
HAIR COLOR
SHAMPOOS
HAIR SPRAY

Rite Aid, which has 1,391 stores such as this one (below), is the nation's third largest chain in store units. Strong sales of basics (above) and rising Rx sales, as well as the industry's highest ratio for private label sales, brought the chain's average gross margin up 0.2% in the third quarter from the previous year's figures.

RITE AID PHARMACY


Rite Aid earnings slide continues
(in millions)

Source: Company reports

Drug store same-store sales growth, which began to wind down in the third quarter, had picked up in the first months of the fourth quarter. At 5.6%, growth in third-quarter same-store sales was well below the previous year's 11.3%. But Grass reported an acceleration in January, with the largest same-store sales gain in over a year, an increase of 10.7%. This was, however, dampened by a weaker February tally of 6.8% growth.

Looking ahead, analysts foresaw improved figures, led by the drug store business, which accounts for 95% of company revenues. Prescription sales continued to provide a bedrock for earnings, with same-store sales reported up 10% in the third quarter. The rising Rx sales combined with strong sales of private label—also a high margin item—to hike average gross margin by 0.2% in the third quarter from the previous year. Private label, meanwhile, increased its share of total sales in fiscal 1986, up a percentage point to 14%, the industry's highest ratio.

Rx sales increased to 35.6% of total sales in the year, compared with 33.4% of 12-month sales in fiscal 1985.

Deep discount strategy

In the year, Rite Aid launched a major offensive in its deep discounting operations after being stung by encroaching low-price competitors in markets including Philadelphia, Baltimore and Rochester, N.Y. Initially, the company was forced onto the defensive in Philadelphia, when it converted a conventional store to one of its Drug Palace deep discount stores, after inroads by Drug Emporium.

Rite Aid subsequently went on the attack, using the stores to explore markets underrepresented by its conventional units.

The chain opened three stores in the Bronx and Brooklyn, N.Y., with a 7,500-sq.-ft. prototype geared for urban sites, and moved into upstate New York, in Rochester and Buffalo, with a 20,000-sq.-ft. version.

Ending the year with 12 Drug Palaces, Grass vowed to open at least five in 1986.

In August, Rite Aid introduced scanning into stores, with a sophisticated in-store computer system that integrates existing store pharmacy computers with the frontend checkout operations. By February, 600 were installed, with plans to roll them out at a rate of more than 200 stores a year.

Designed by Stores Automated Systems Inc. (SASI) owned 50% by Rite Aid, the system uses a powerful computer for scanning and record keeping. Information from the pharmacy and front end systems can be consolidated for transmission over a single telephone line to the host computer. Plans were to equip all stores by 1988.

Circus World sold

The chain emerged with a slimmer profile after selling off Circus World in August for $35 million and stock to Greenman Brothers Inc., a consumer products wholesaler and retailer. The 191-store business that Rite Aid bought in 1982 had posted a disappointing 1984 Christmas season, with same-store sales down almost 10%.

Rite Aid also closed its nine Heaven contemporary variety stores, saying it would concentrate on its three main businesses: drug stores, its ADAP automotive supplies chain, and its Encore Discount book stores.

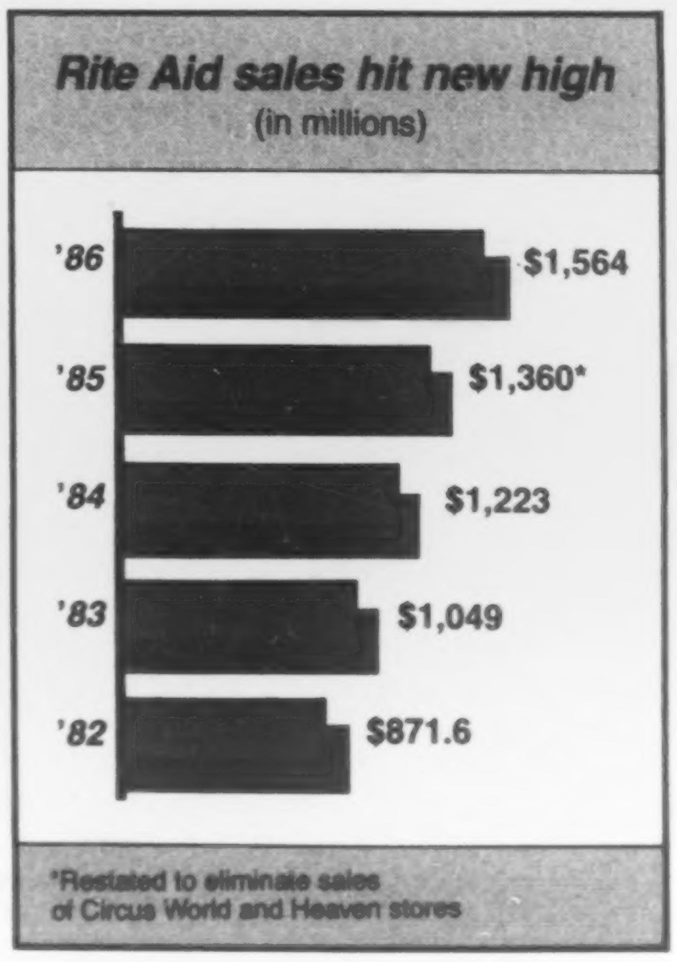
ADAP broke even for the year in profitability, with sales of $49.9 million, recovering from a difficult 1985 year, hampered by a $128,000 third-quarter loss. Operating 59 ADAP stores as of March, the chain planned to add seven more in 1986.

More Encores planned

With steady sales growth, the Encore division posted $17.9 million sales in 1986, with store units increased 25% to 27, and plans to add five more in 1986.

Rite Aid accelerated its videocassette program, installing the rental departments in 448 more stores, bringing total stores to 556 in February.

In November, Rite Aid began work on what will be its fourth distribution center, in Winnsboro, S.C. The 265,000-sq.-ft. center will increase the capacity of its store service network from 1,500 to 2,000 stores and support planned aggressive inroads in North Carolina, South Carolina, Georgia and Tennessee.


Rite Aid sales hit new high
(in millions)

*Restated to eliminate sales of Circus World and Heaven stores

PROFILES

Peoples growth fueled by diversification

ALEXANDRIA, Va. — Peoples Drug Stores, pursuing several growth fronts in 1985 and 1986, doesn't expect its support levels to be affected by parent Imasco's possible $2 billion acquisition of financial services firm Genstar.

It's business as usual for the 831-store chain, which spent 1985 absorbing Rea & Derick; launching its long-awaited Florida attack by taking over 31 Shoppers Drug Mart stores; replacing three distribution centers with a 500,000-sq.-ft. DC in Fredericksburg, Va., and turning to Hardee's fast food, a freestanding Eye City optical center, and additional Bud's deep discount stores as separate growth avenues.

The scorecard for the first nine months of fiscal 1985 (through Dec. 31, 1985)shows these efforts raised revenues 39% to $980 million, as operating earnings fell 6% to $29.3 million. That disparity was particularly evident in the third quarter, when sales rose 30% to $350.4 million and operating earnings fell 21% to $12.2 million.

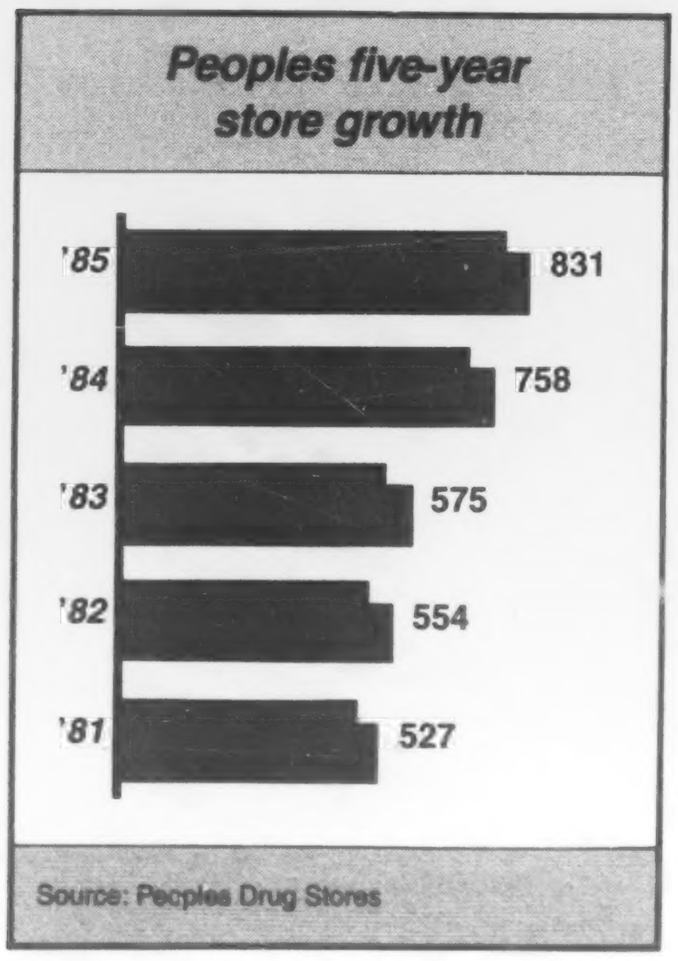
Peoples attributed its poor Christmas-quarter profits to increased price competition, especially from deep discounters, and some inventory out-of-stock problems related to startup of its $24 million DC in Fredericksburg.

Much of Peoples' sales growth has come from new stores; through the first six months of the fiscal year, comp-store sales grew just 6.4%.

One of Peoples' most promising markets appears to be Florida, where Peoples took over 31 stores from its sister division, Shoppers Drug Mart, last spring. Chairman Sheldon "Bud" Fantle announced plans to expand to 75 stores there by mid-1987, while keeping that division's operation autonomous, in much the same manner as Reed and Rea & Derick.

These stores are expected to carry more private label and hard goods merchandise, such as souvenirs, patio/picnic, swim goods and other outdoor categories tailored to the market.

Peoples will concentrate growth on Florida's east coast from Fort Lauderdale to Vero Beach, and from Naples to Pasco County on the west.



Peoples five-year store growth

Source: Peoples Drug Stores

Peoples plans to add 60 new stores and remodel 130 companywide in 1986, up on both counts from 1985. According to a company spokesman, all conventional drug stores will be in the format of a 10,000-sq.-ft. prototype unveiled in Toledo, Ohio, last November, which angles checkouts by the corner entrance and drives shoppers through high-margin seasonal aisles.

Peoples' recent expansion raised its roster of stores to 831 as of March 22, 1986, including: 559 Peoples, 109 Lane, 85 Rea & Derick, 34 Health Mart, 31 Shoppers Drug Mart, 7 Bud's, 5 Hardees and one Eye City store.

Expansion moves

That expansion includes the takeover of 134 Rea & Derick stores in December 1984, the addition of several more since then, and the conversion of about 50 to the Peoples banner; continued expansion of Bud's, which has its own buying and merchandising staffs; the twinning of Hardee's fast-food restaurants with larger Peoples stores: and its ongoing one-store test of Eye City, a freestanding optical center.

Hardee's, set up in five stores currently, replaced in-store fountain counters in some cases. Peoples' franchises each Hardee's from its sister Imasco division, carves out about 3,000-4,000 sq. ft. of store space and separates the restaurant from the rest of the store with a wall. There's no walkthrough from store to restaurant, and each has its own entrance.

Where leases allow, Peoples will add Hardee's in this manner as fast as possible, a company spokesman said. Peoples won't detail why, but fast-food restaurants typically operate on 20% gross margins and produce a 20% return on investment. Peoples return may be better since it doesn't have to build the unit from scratch.

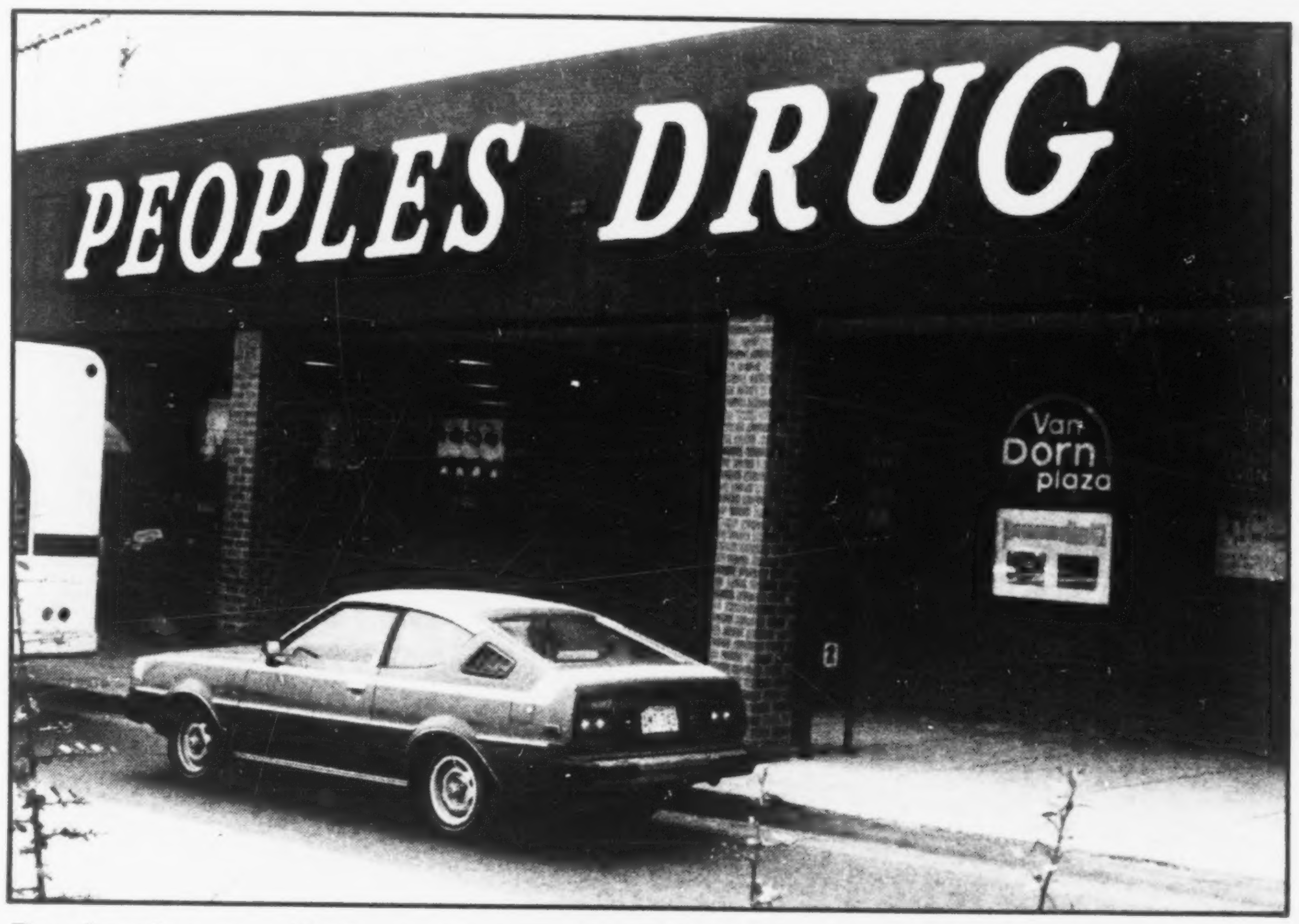
The typical Hardee's, which is somewhat larger than the Peoples format, generates about $802,000 in annual sales. That number should rise to about $874,000 in 1986, according to *Nation's Restaurant News*.

Initial plans were to target Hardee's expansion in the densely populated Washington market, where Peoples has about 165 stores and Hardee's 16.

Retailing venture

In another specialty retailing venture, Peoples opened 13,000-sq.-ft. Eye City in Alexandria, Va., this past January. Its unusual concept of self-service eyeglass merchandising is expected to help produce $1 million in sales this year; an adjoining optometrics center should add another $250,000 in that period, according to company sources.

Whether Eye City succeeds as a retail concept, Peoples still derives considerable benefit from the facility, because its lab will produce lenses for the chain's 58 optical centers by the end of 1987.



Peoples plans to add 60 new stores and remodel 130 companywide in 1986, up on both counts from 1985. Its mid-Atlantic stores are said to be getting better service from the new 500,000-sq.-ft. distribution center in Fredericksburg, Va.

The optical centers, all but four of which are in drug stores, now pay subcontractors $15-$20 to finish each pair of glasses; the Eye City lab will do it at $4-$5 per pair. Each optical department sells $50,000-$60,000 worth of glasses annually.

Moreover, Eye City will take 50%-90% margins on eyeglass frames it sells.

Strong traffic pickup

A company spokesman said at presstime that Peoples is pleased by early results, but hasn't decided about Eye City expansion. He noted a strong pickup in Eye City traffic and sales after a Bud's deep discount store opened in the same strip center two months later.

Peoples, as part of a more mainstream effort to tighten operations at its drug stores, plans to test electronic point-of-sale systems in about 10 stores this year, a company spokesman said. He expects the test to last at least six months, adding that Peoples could roll out such a system over a few years if results warranted.

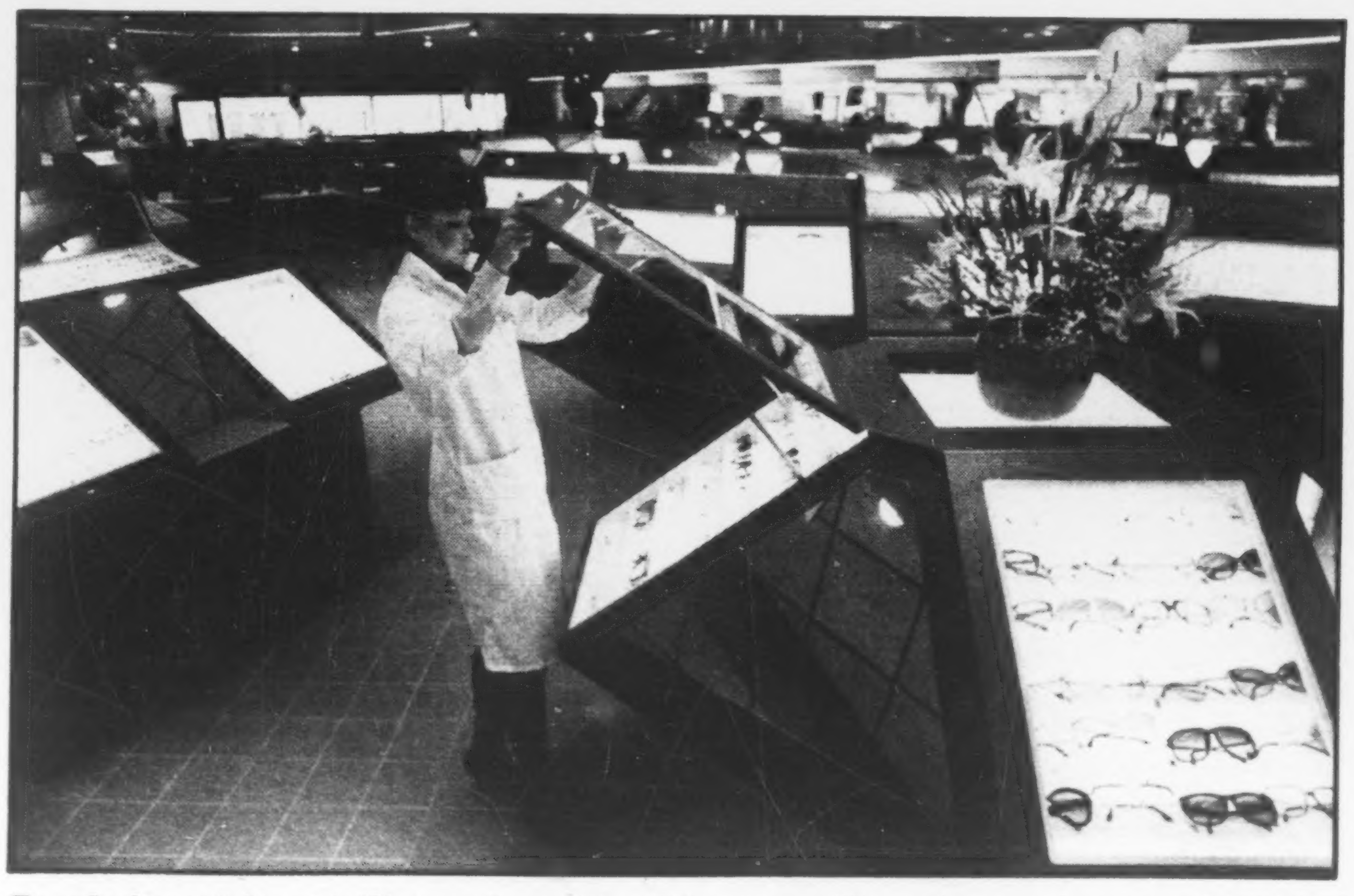
Peoples is further ahead in equipping stores with pharmacy computers, he said, without being specific about how the two data systems might link. He said "several hundred" stores have pharmacy computers, and Peoples is "proceeding on plan" with chainwide rollout over the next few years.

In reviewing distribution efforts, the Peoples spokesman said, "Out-of-stocks [which are impacted Christmas quarter results] are no longer a problem in the mid-Atlantic region. We're all ironed out now." Peoples has already closed two DCs in Richmond, Va., which totaled 100,000 sq. ft. and were used primarily for bulk and seasonal goods. Phaseout of the 250,000-sq.-ft. picking warehouse in Richmond, Va., will take another six months, he said.

Comprehensive DC

Eventually, the automated Fredericksburg DC will handle all distribution needs for Peoples stores from Harrisburg, Pa., down to North Carolina and as far west as West Virginia, the spokesman said. He estimated it could support about 400 stores.

Company executives noted earlier that high ceiling space enables Peoples to stack eight pallets high and have capacity equivalent to nealy one million sq. ft. The facility is expected to save 30% in labor costs and payback in seven years.



Peoples' specialty retailing venture, Eye City, uses self-service eyeglass merchandising to produce an anticipated $1 million in sales this year; adjoining optometrics center should add another $250,000.

THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PROFILES

Thrifty uses Jrs. to tap mini markets; plans expansion of downsized units

LOS ANGELES — No matter how many drug stores a chain operates, market penetration is an elusive quality. To what extent can a market be coalesced before it is considered "locked up?"

And how can you make inroads into regions that are too small to support an 18,000-30,000-sq.-ft. drug store?

Notes Leonard Straus, Thrifty's chairman, "With all the volume we do in California [255 stores], we still reach less than 50% of the consumers."

That is why Thrifty Corp. bought 15 Drug King and 13 Guild Drug stores and launched a new division of downsized stores called Thrifty Jr. Thrifty plans to open 25 Jrs. this year.

Thrifty Jr. (3,000-8,500 sq. ft.) will go into areas of 5,000-7,000 population. The stores will derive economies of scale from Thrifty's centralized distribution, buying, accounting, EDP, and advertising. In addition, the Jrs. will have instant name recognition.

In going downsize, Thrifty is taking a page out of Pay Less NW and its Key Drug division. However, there is one major difference: Key has a manager/pharmacist in charge; Thrifty has both a store manager and a pharmacist.

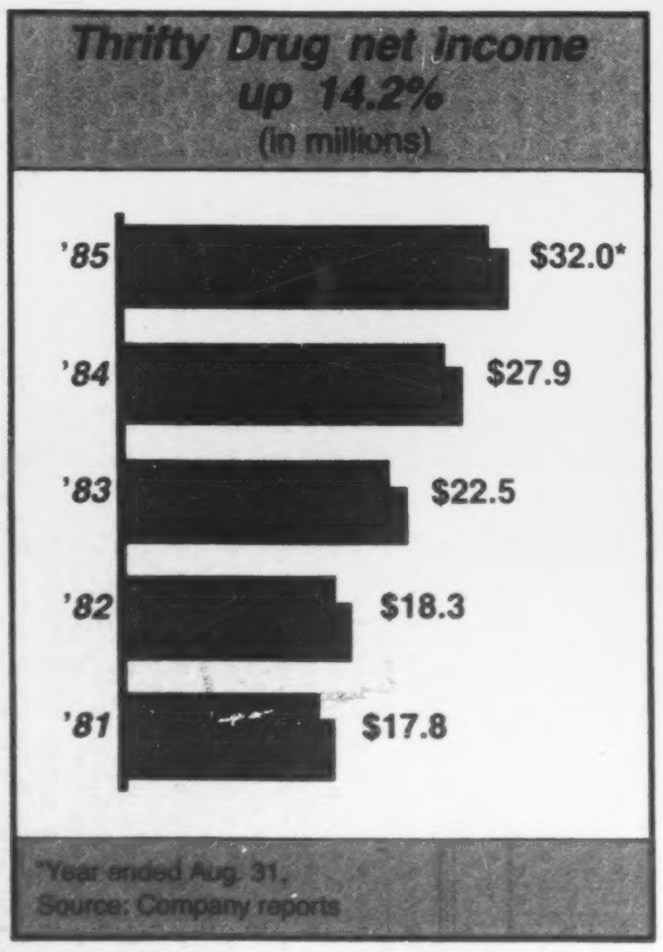
Another difference is that Jr. growth will come from existing buildings—as well as from acquisitions of small chains and independents—but no stores will be built from the ground up. Key will follow the same route, except it will build new stores, too, as evidenced by the new Myrtle Creek, Ore., unit.

'Thrifty Corp.'s performance in fiscal 1985 . . . was highlighted by two plusses and a minus.'

Thrifty Corp's performance in fiscal 1985 (sales up 8.1% to $1.4 billion; net income up 14.2% to $32 million) was highlighted by two plusses and a minus.

'With all the volume we do in California, we still reach less than 50% of the consumers."

—**Leonard Straus**
chairman,
Thrifty Corp.


Thrifty Drug net income up 14.2%
(in millions)

*Year ended Aug. 31.
Source: Company reports

The plusses: stellar performance by Newman Importing and Big 5 Sporting Goods. The annual compounded growth rate for Newman, acquired in 1973, is 17% on sales and 20% on profit. As for Big 5, over the past 15 years sales increased at an annual compounded rate of 22.2%, and profits, 24½%.

The minus: the failure of Trak Auto West (Thrifty owns 50%) to break into the black. Thrifty's share of Trak's loss during the last fiscal year was $4 million.

Trak profit drain

Currently, there are 71 Trak stores in the Los Angeles area, and Straus said, "We expect to break even when we have 90-95 stores." However, Straus admits that one of the reasons for Trak's profit drain is that "we operated on too low a margin [17%-18%]. However, we are correcting this and increasing the selection."

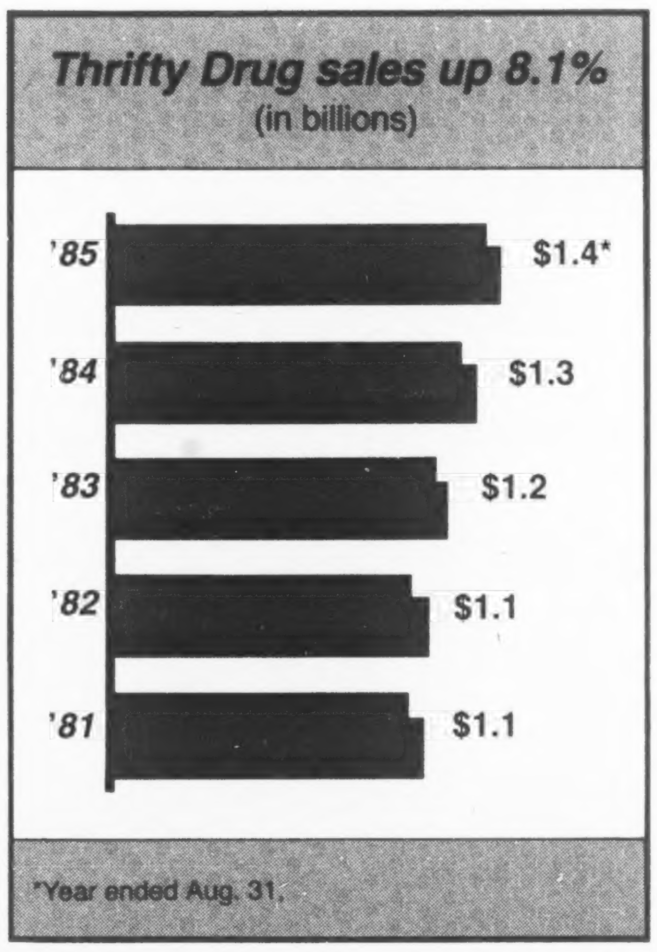
He also said that while Trak is not on the block, "If someone comes in with a very nice price, we would receive an enormous profit if we sold."

In what Thrifty calls a "milestone," the remaining 23 coffee shops have been phased out. Straus said that coffee shop profits were declining and "we decided to close them because we can make more profit using the same space for drug store merchandise."

Thrifty continues to move ahead on the computer front. The IBM Series 1 pharmacy computer is now in 252 stores and will be in more than 350 stores by the end of fiscal 1986.

Testing POS system

Thrifty's POS system (using an IBM Series 1, six or more IBM 3680 POS registers and two or more IBM personal computers in each store) is being tested in 28 stores, with 25 additional stores due to go onstream during the balance of the current fiscal year. The program is a $60 million joint venture with IBM and is expected to be completed in 1989.

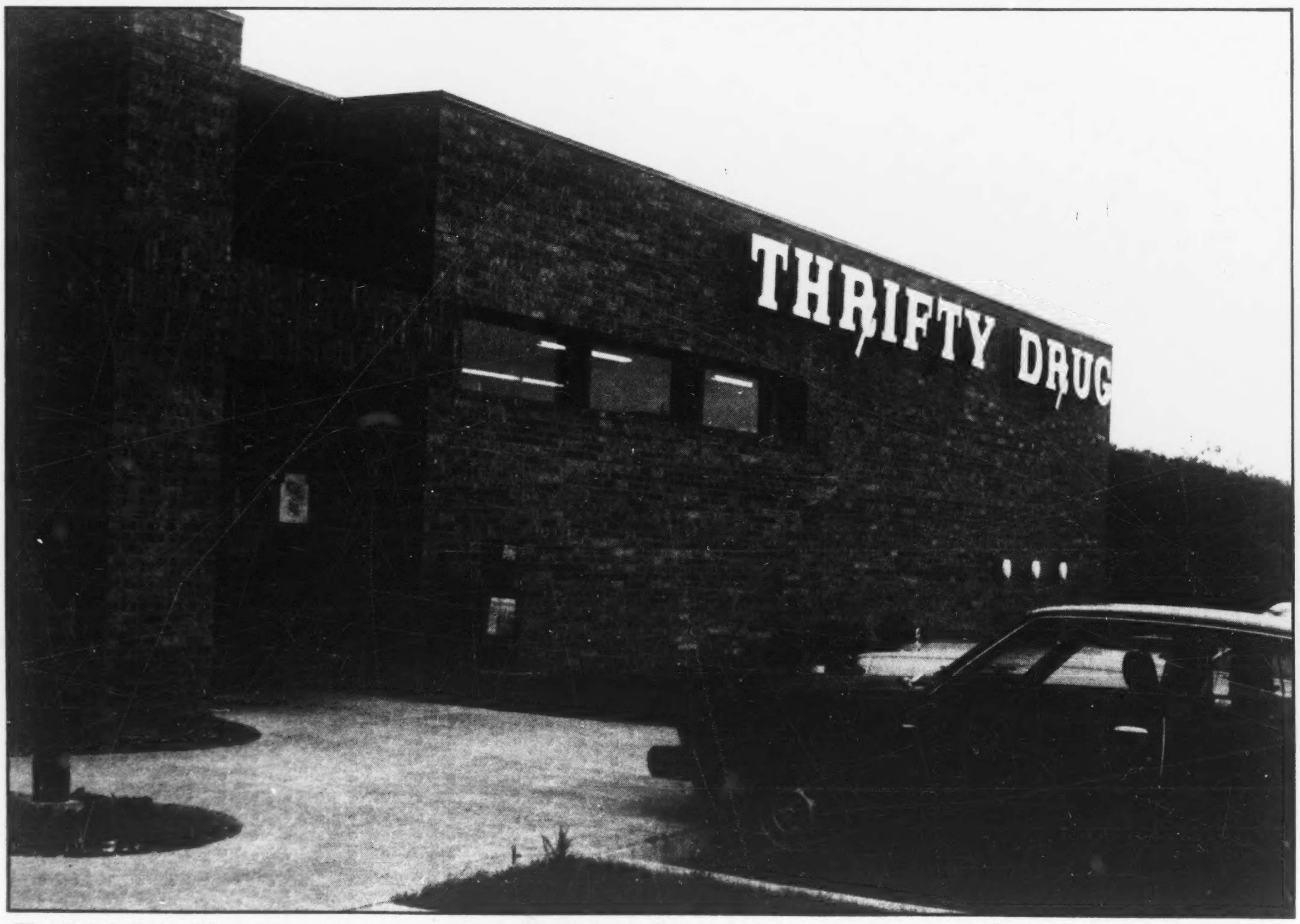

Thrifty Drug sales up 8.1%
(in billions)

*Year ended Aug. 31.

With a more aggressive stance, including hotter promotions, Thrifty is increasing its TV budget—used primarily for pharmacy and private label—by 45% this year. TV spots will also feature core departments—Rx, drugs, toiletries and cosmetics. Radio commercials will continue to emphasize film processing. The chain's total ad budget in fiscal 1985 was $54 million.

At the chain's annual shareholders' meeting, Straus noted that the California lottery has taken $1 billion of expendable income out of circulation since its inception in October 1985 and that grocery chains have dropped 5% in volume as a result.

Straus made no comment on the effect on drug store sales, and also did not say to what extent the 5% on sales that retailers receive for selling lottery tickets compensates for lost volume.



Thrifty's full-sized drug stores (above) are too large for many markets, and that is why the company has created a new downsized prototype called Thrifty Jr., for areas of 5,000-7,000 population.

PROFILES

Bantams help CVS crack $1 billion sales barrier

WOONSOCKET, R.I. — CVS, the bantam chain owned by the Melville Corp., a diversified conglomerate, quietly broke the $1 billion a year sales barrier in 1985, making it the industry's ninth chain to crack a billion a year in sales.

Total sales for the 592-unit chain rose 16% to $1.017 billion. Since CVS only added 39 stores in 1985, a 7% increase, most of the company's volume growth came from existing stores. Today the average CVS store does about $1.7 million in sales in a selling environment of approximately 5,500 sq. ft.

CVS dollar volume and number of stores

	1984	1985	1986 (est.)
Total dollar volume	$877.0M	$1.017B	$1.158B
Total stores	553	592	626

Source: *Drug Store News survey*

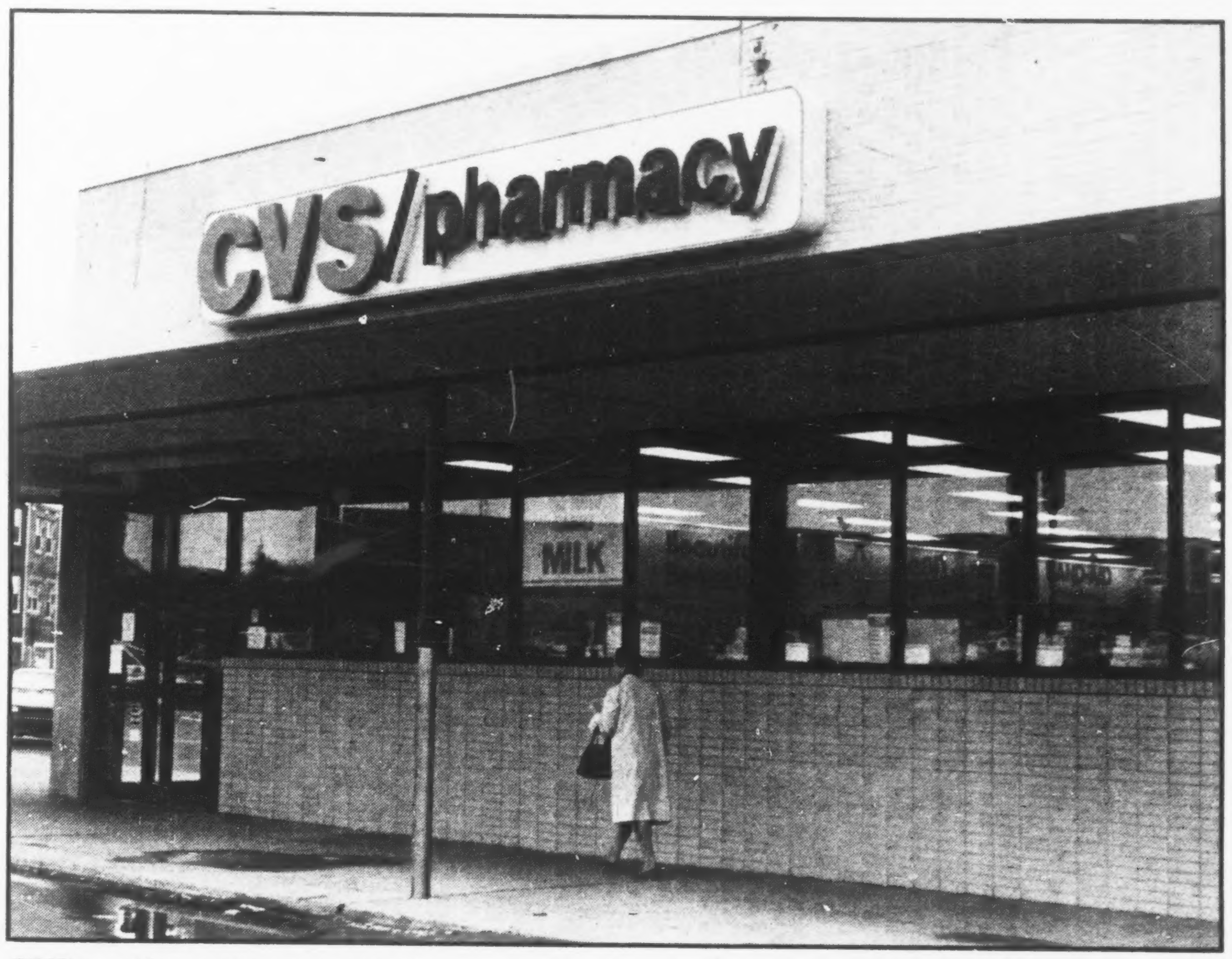
Also in 1985, CVS made it into the industry's top 10 drug chain in terms of dollar volume. Last year, Pay Less NW, the Oregon-based super store operator, edged CVS out of 10th place in the highest-volume chain rankings. This year, Pay Less itself broke the billion barrier, but just slightly behind CVS.

CVS is also one of the few remaining drug chains to continue to operate primarily as a "pure drug store." Although CVS's parent, Melville, is highly diversified, even to the point of operating a fast-growing chain of deep discount drug stores (Freddy's), CVS itself is not involved in any type of retail diversification.

The company continues to concentrate on opening bantam drug stores in either mall, strip or freestanding locations and to emphasize a basically health & beauty aids/over-the-counter mix of products.

The only major new category to be introduced into CVS stores in recent years is convalescent aids/home health care items, and even in this major new area, CVS's experimentation is conservative. Only about 100 stores have convalescent aids sections, and there are no plans to expand the department in the foreseeable future.

Because CVS concentrates so fully on H&BA items, the company is able to whip some 84% of its total drug store dollar volume purchases through its two major distribution centers.



CVS continues to concentrate on opening bantam drug stores in either mall, strip or freestanding locations and to emphasize a basically health & beauty aids/over-the-counter mix of products.

In addition to enhancing bottom-line profitability through operational efficiencies, CVS uses its 1 million sq.ft. of distribution space to generate one of the industry's best inventory turns. CVS is also able to maintain one of the industry's highest in-stock rates.

Not locked into circular advertising as some of the promotional chains like Eckerd and Peoples , CVS is also able to enhance profits, which are unreported, by keeping advertising expenditures as a percentage of sales relatively low.

Much of CVS's traffic is generated through its convenient locations and through its relatively strong consumer franchise. According to sources, consumer research shows that CVS shoppers rate the chain highly on such key dimensions as price, service, variety of selection, store cleanliness, ambience and speed of checkout.

Thrift enjoys record sales of $641 million in 1985

PITTSBURGH — Although faced with some of the stiffest competition in its history, Thrift Drug had record sales last year.

Thrift, a J. C. Penney subsidiary, rang up $641 million in sales in 1985, up 8.5% over 1984.

Moreover, comparative same-store sales rose 6.9%, while average store sales per year closed in at $1.8 million in 1985, up slightly from $1.7 million in 1984.

At year's end, Thrift operated 374 drug stores in 20 states under the Thrift and Treasury banners, a total store increase of four over 1984. During the year, two stores closed and six opened. However, Thrift is engaged in a major remodeling program and plans to overhaul 40 stores during 1986 and open 25 stores over the same period.

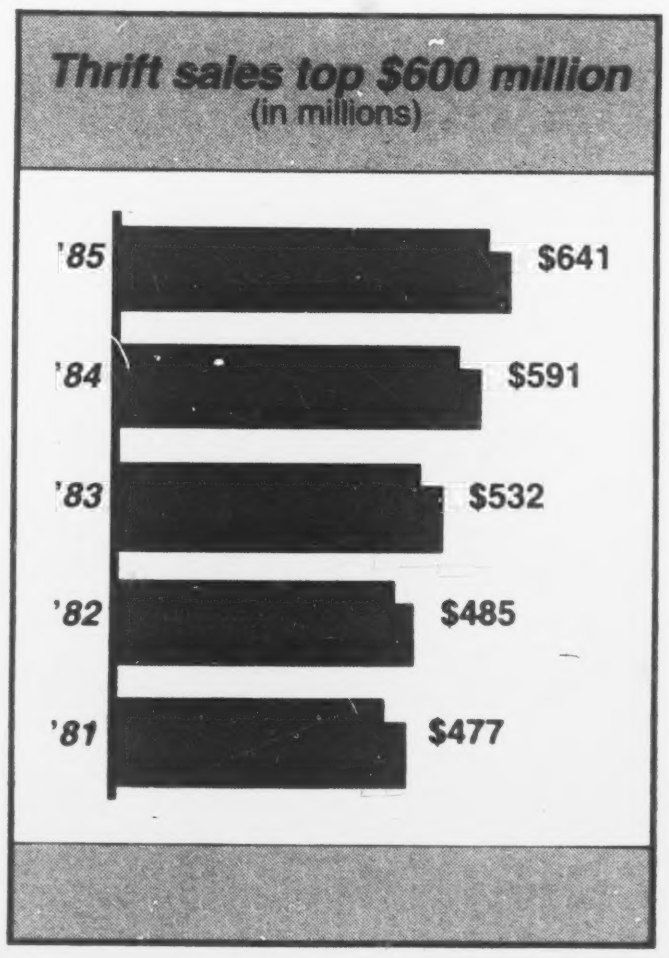
Prescriptions remain one of the mainstays of Thrift's drug store business, accounting for 34% of total sales. Last year, the chain dispensed a total of 19.1 million scripts. But perhaps the strongest growth occurred in its mail-order pharmacy business, which the chain says is experiencing "substantial growth." Thrift is one of the leaders in this field of operations.

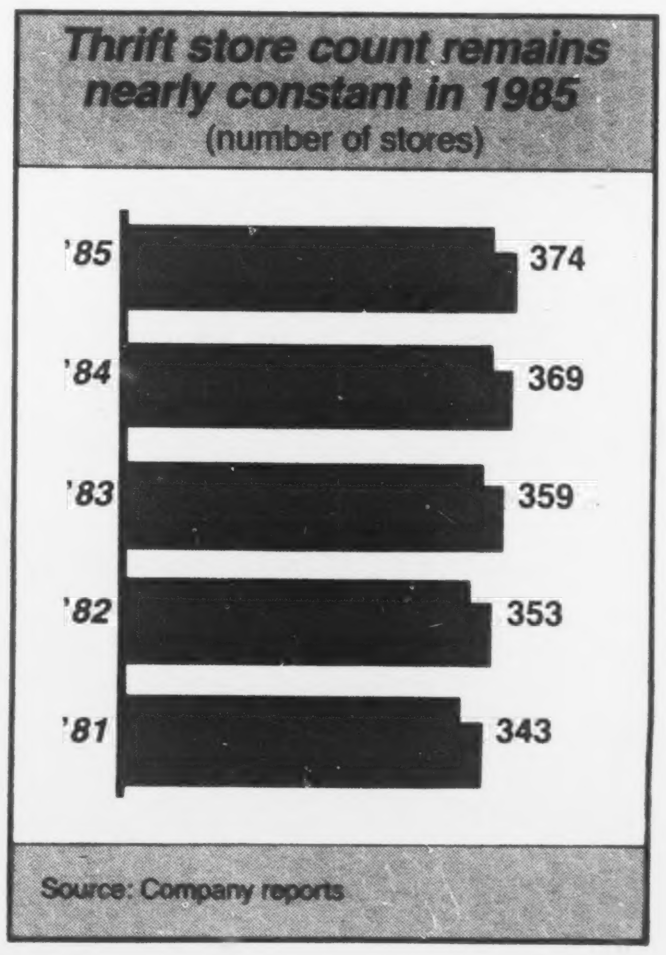
Altogether, 98% of Thrift drug stores are managed by a registered pharmacist. Typically, Thrift drug stores average 8,500 sq. ft. of selling space, with a heavy emphasis on pharmacy. Since the mid-1960's, the chain has also sponsored a student assistant training program, which doles out loans to pharmacy students who come to work at Thrift. The program continues to be successful.

While many other chains during 1985 diversified into new formats—most notably deep discount and combination stores, Thrift has chosen to stick to the basics. However, the chain did experiment with one hybrid convenience food and deep discount drug unit in Monroeville, Pa., last year and will continue to operate this store.

The hybrid, a one-of-a-kind Savon store, reached $4 million in sales this year, according to reports. The store is averaging about $80,000 per week. Thrift converted the store into a deep discounter with convenience food and an optical department after a neighboring Kroger food store was replaced by Phar-Mor, a deep discount food and drug store.

Pittsburgh is one of Thrift's major markets, with about 65 drug stores. The hybrid Savon store is within the Metro Pittsburgh Area, a highly competitive drug store market. Thrift apparently reacted swiftly when the deep discounter Phar-Mor moved in next store.


Thrift sales top $600 million
(in millions)


Thrift store count remains nearly constant in 1985
(number of stores)

Source: Company reports

However, the chain stresses it has no plans to open more hybrid stores.

In other areas of operation, Thrift now has computerized 360 of its stores and is looking at point-of-sale scanning systems for its frontend merchandise. The scanning system will be separate from its pharmacy computer system.

Last year Thrift also completed its drive to help save the financially troubled Pittsburgh School of Pharmacy through the support of chain drug stores. Donald Bell, vp-public affairs, and Francis Marasco, vp-personnel, helped organize the drive, which now includes a manufacturer, wholesaler and the NACDS. The group plans to present an endowment fund to the school.

In 1985, the Chain Drug Scholarship Fund was established for the pharmacy school and included six scholarships from the money raised from the drive. More funds are currently being raised.

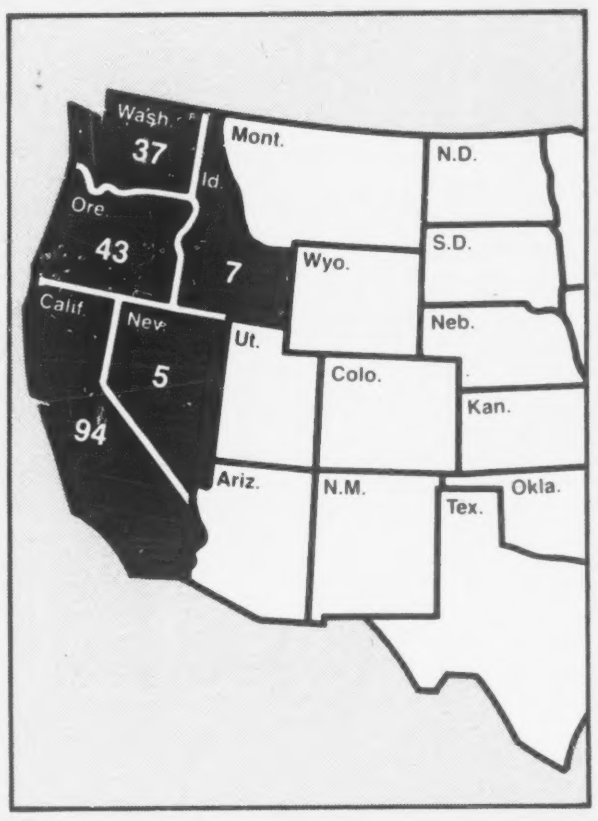
Thrift's parent, J. C. Penney, had a difficult year, as soft sales in general and a buildup of inventory after Christmas 1984 had a significant impact on the company's earnings. During 1985, sales increased 2.4% to $13.8 billion, from $13.5 billion in 1984. However, earnings declined 8.6% to $397 million, from $435 million in 1984.

PROFILES

Pay Less NW expands; to double size in 3 years

Pay Less Drug Store locations

Oregon (including three Key Drug and one Value Giant)	43
Washington (including two Key Drug)	37
Nevada	5
California (Including two Key Drug and two Value Giants)	94
Idaho	7
Total	186



WILSONVILLE, Ore. — As Pay Less NW crested the $1 billion sales mark in the fiscal year ended Jan. 25, 1986, the rallying cry from parent K mart remained unchanged: More. More store, more volume, more market share.

The expansionist theme was sounded soon after K mart acquired Pay Less in March 1985, when Bernard Fauber, K mart chairman, said one of the criteria for acquiring a company is that "management must enthusiastically endorse a commitment to rapid expansion."

As a result, Pay Less plans to double the number of stores—and its volume—in three years.

It's a tall order, but then Pay Less plans to move into new markets. For starters, the chain will open its first Montana drug store in fiscal 1986 (Bozeman) and then follow with another in 1987 (Helena). Observers say the company will first expand to contiguous states and eventually become a national chain.

To make the transition from regional to national, Pay Less is flying with four prototypes. This gives the chain the flexibility to go into markets of varied sizes and demographics.

The prototypes:

- The 31,000-sq.-ft. super drug store. Most of today's Pay Less stores are 29,000-30,000.
- The 23,000-sq.-ft., scaled-down super drug store. This prototype was introduced last year to gain entry into trading areas that cannot support a 31,000-sq.-ft., store.
- Key Drug, a downsized store (6,000-10,000 sq. ft.). Key goes into locales that cannot support a 31,000- or 23,000-sq.-ft. unit.
- Value Giant deep-discount drug store. To date, there are three—all remodels of existing Pay Less super drug stores.

Observers feel that Key Drug will fly the fastest—and with justification: Plans are to open 100 Keys in the next three years.

Currently, there are seven Keys in three Western states.

What does Key look for in sites? Basically, adequate parking, a population draw of 5,000 to 10,000 people, and a grocery store to pull traffic.

Pharmacist also manager

What differentiates Key stores from other convenience stores-with-pharmacy such as Thrifty Jr. is that the Key pharmacist is also the store manager. By having the store manager/pharmacist spend half his or her time filling scripts, the store can fill almost as many as conventional Pay Less, which employs 2½ pharmacists. Thus, the labor saving is substantial.

Six of the first seven Keys are buyouts of independent drug stores; and because there are variables in size, Pay Less has designated two stores as prototypes. One (in Milton-Freewater, Ore.) is for stores under 9,000 sq. ft., and the other (in Stanwood, Wash.) is for stores over 9,000 sq. ft.

The big question mark in Pay Less' operation is Value Giant, the deep drug discounter. The first Value Giant opened in Portland, Ore., in July 1984, followed by two in Hayward, Calif.

Pay Less is silent on its plans for Value Giant, but drug watchers in the Pacific Northwest feel that the past year has been one of testing—for example, raising the quality and price points of departments such as domestics, and adjusting the space for food.

Prototype for expansion

Observers feel that when the fourth Value Giant opens, it will combine the best features of the existing three—plus some innovations—and will be the prototype for expansion.

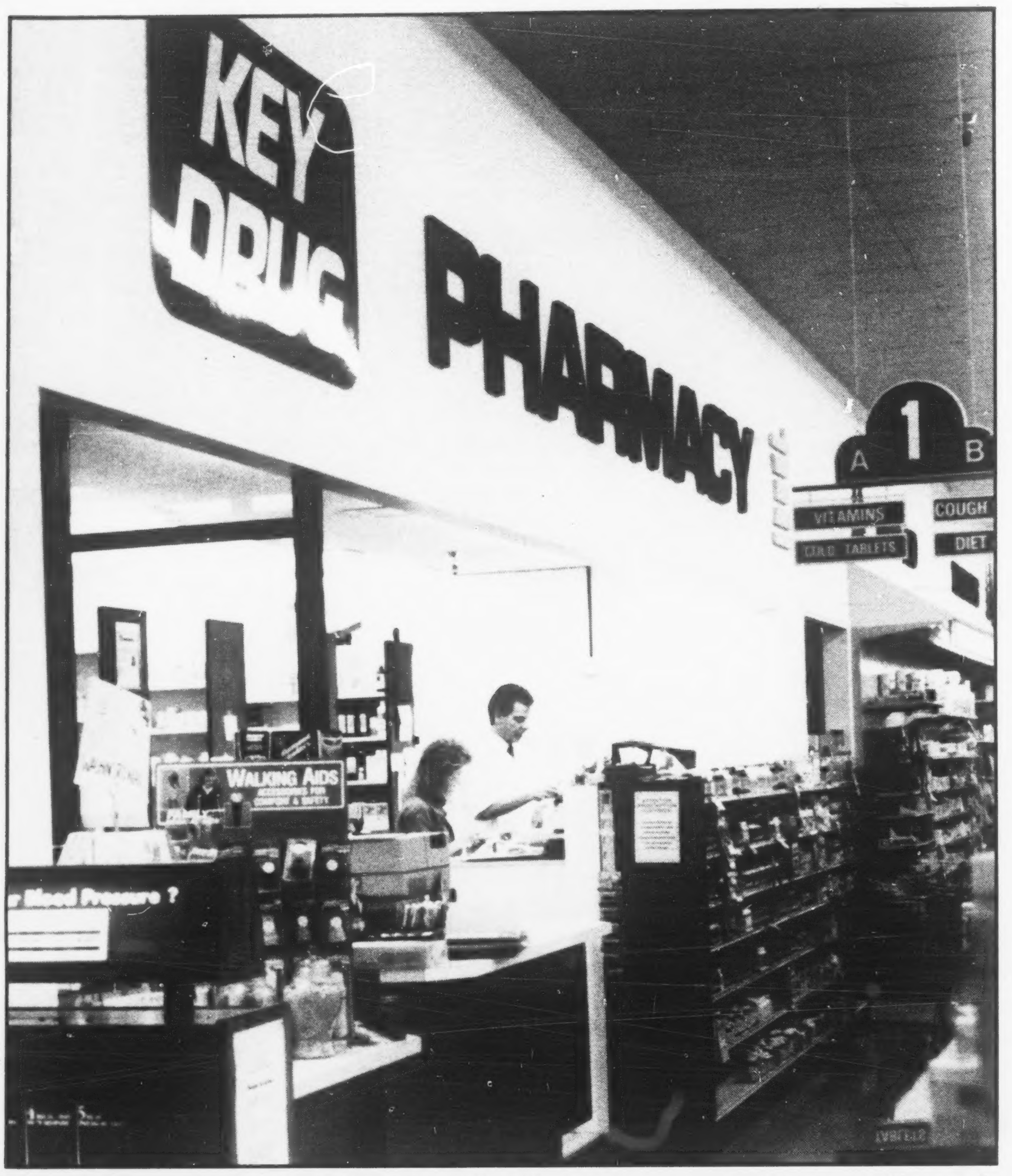
As for Pay Less super drug stores, they are taking a page out of K mart's book by installing apparel departments in all stores in the 30,000-sq.-ft. range. All apparel departments should be in place by the end of 1987.

Although Pay Less has drawn on the expertise of K mart, the apparel department is being run by Pay Less. Even so, there are similarities: Price points are in the medium range, and both use apparel fixtures.

One difference is that Pay Less departments will be smaller—most will be 4,000 to 8,000 sq. ft., as compared with 15,000 sq. ft. for K mart.

The appeal of apparel is that even with markdowns, the department generates higher gross profit dollars than many other departments in a super drug store.

However, some skeptics—including a former Pay Less exec—question whether turnover justifies the space.



The pharmacy is on the left side of the Key prototype, next to cosmetics and OTC/H&BA. Key store managers are pharmacists who have completed at least five months of training.

Customizes mix to locale:

Variety of its takeovers forces Key to design two prototypes

WILSONVILLE, Ore. — Because of the variables in size, configuration and locale, Pay Less has designated two stores as prototypes for its downsized Key Drug stores.

The prototype for the smaller store (under 9,000 sq. ft.), in Milton-Freewater, Ore., is 7,500 sq. ft. The prototype for the larger store (over 9,000 sq. ft.), in Stanwood, Wash., is 14,000 sq. ft.

There are variations in size because most Keys are takeovers of independent drug stores.

The layout of the Stanwood prototype is a cross between a Pay Less super drug store and a traditional drug store. Photo is in the right front corner, followed by hardware, sporting goods, automotive, housewares and toys-games.

Cosmetics are in the left front corner, followed by pharmacy, OTC and H&BA, with detergents/cleaners and domestics on the back wall.

The Milton-Freewater prototype, which closely parallels the traditional drug store, has some housewares, but no sporting goods, soaps, detergents, auto or hardware. As a result, drug/H&BA has been extended.

Pay Less considers pharmacy, cosmetics, photo, OTC/H&BA and school/stationery as traditional drug store departments.

At Key, there are 35%-40% fewer cosmetics sku's than in a 23,000-sq.-ft. Pay Less. More than 80% of Key's merchandise is shipped from Pay Less' central warehouse. Categories not centrally warehoused include domestics, greeting cards, seasonals, boxed candy and some food.

Both prototypes have built-in flexibility for customizing the mix to the area. For example, the smaller prototype does not usually carry sporting goods. However, the newest Key (opening in Myrtle Creek, Ore., in May) is 8,100 sq. ft., and will carry sporting goods, because it is located in a hunting/fishing area.

Movement in all departments is carefully monitored, and additions and deletions are made in every section up to six times during the first year.

In addition, the manager/pharmacist regularly walks the store, checking code dates. If the category hasn't turned in three months, it is discontinued.

Key store managers are pharmacists who have completed five months of training. Currently, there are 15-18 trained pharmacist/managers awaiting a store. Twice that number of Pay Less pharmacists have signed up for the Key manager-training program.

Currently, Key operates six stores in Washington, Oregon and California and won't go to additional states until these markets have been clustered.

Key expects to have 100 stores in operation within the next three years.

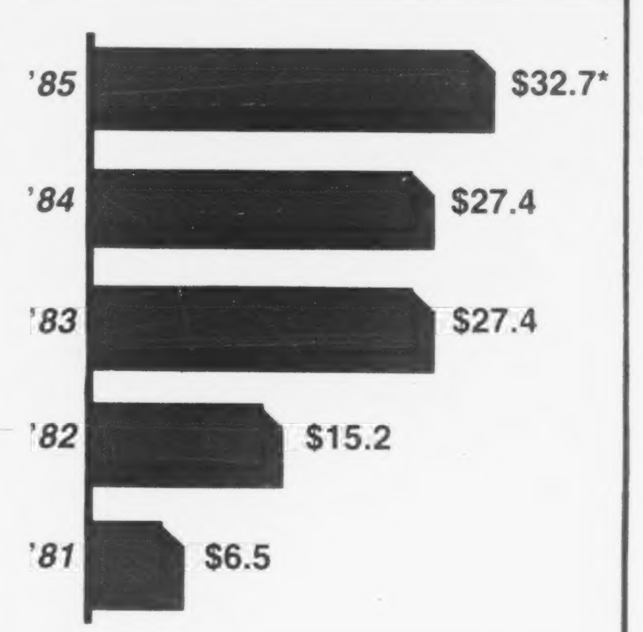
PROFILES

SupeRx builds deep discount; parent buys Hook

CINCINNATI — SupeRx made a major new commitment to deep discount stores in 1985 and gained a new partner for its conventional store operations with Kroger's acquisition of Hook Drug.

At year's end, SupeRx bolstered its discount store offensive, buying five Warehouse Drug stores from the Fort Mitchell, Ky.-based Mi-Lo Inc. Simultaneously, the Midwest chain launched three new prototypes for its Drug World deep discount stores. SupeRx ended the year with 21 discount units in eight states, the largest arsenal of low-price drug stores among conventional chains.

SupeRx operating profits up
(in millions)



*estimated
Source: Company reports

The moves accelerated a shift from what had recently been a defensive posture in low-price retailing, particularly in Columbus, Ohio, where the chain had been forced to convert several of its conventional stores into Drug World units, in the face of stiff low-price threats from Drug Emporium, Cub Foods and Phar-Mor.

With new prototypes in Louisiana and Georgia—10,000 sq. ft. larger than Drug World's 12,000-sq.-ft. model store—SupeRx moved squarely on the offensive. It intended to experiment with higher grossing items and refine its expertise in buying on deal merchandise.

Besides allowing entry into the new deep discount markets of Cincinnati, Lexington, and Louisville, Ky., the Warehouse Drug units provided profitable operations, with a ready-made customer base, and a Kentucky-based warehouse that SupeRx is leasing from Mi-Lo.

Kroger's February $161 million purchase of the 314-store Hook Drug chain yoked two regional powerhouses covering 22 states under a single umbrella.

SupeRx officers said both companies will benefit from operational synergies between the two chains, although the chains are different in store size, merchandise mix and retailing outlook in some aspects.

SupeRx is a promotional chain that emphasizes seasonal merchandise in stores of typically 10,800 sq. ft. Hook, on the other hand, has relied on core H&BA, cosmetics and prescription sales in building average 34% gross margins, the industry's highest. Its stores average 6,000 sq. ft. Both chains achieve high prescription sales, with SupeRx's accounting for 34% of total sales, and Hook's, 37%.

In spite of the differences, Kroger began achieving efficiency through coordinating operations in some areas.

In September, to promote economies, 27 SupeRx stores in Hook's market areas of central Indiana (mostly Indianapolis) and east central Illinois were turned over to Hook's control. Five Hook stores, in south central Illinois and west central Ohio, fell under SupeRx management.

Hook then took over SupeRx's home health care experiment in Nashville, benefiting from extensive experience in the field through its 17 Convalescent Aids Centers.

PHARMACY
DEODORANTS

Kroger, SupeRx and Hook's parent, added 24 new SupeRx stores and remodeled 24 more last year. Doug Reeves has operational control of SupeRx stores, such as the one pictured here, as well as of Hook units, under the drug division president,Wolken.

Then in March, drug division president Gerald Wolken announced that Hook chairman and president Douglas Reeves would take over operational control for SupeRx stores as well as Hook, reporting to Wolken.

A 44-year-old pharmacist, Reeves said he expects both chains to continue improving through their joint association. Observers predicted a stronger emphasis with SupeRx on health care, given Hook's success in the area and the field's strong growth potential.

Kroger showed continued commitment to the drug store business through the Hook buy and through strong new growth and remodeling programs for both chains. It added 24 new SupeRx stores and remodeled 24 more. Hook grew by 17, totaling 318 drug stores, with 18 more remodeled. The company reported that in the 1985 fiscal year ended in December, it opened and acquired 331 drug stores, including Hook. It closed 33 stores, ending the year with 872 drug stores.

The SupeRx chain totaled 550 stores at year's end, compared with 620 a year earlier. The difference resulted mostly from the assignment of the 27 stores to Hook control (with the stores still operating under the SupeRx name), and by not counting 14 SupeRx minifood/drug combo stores in the drug store total.

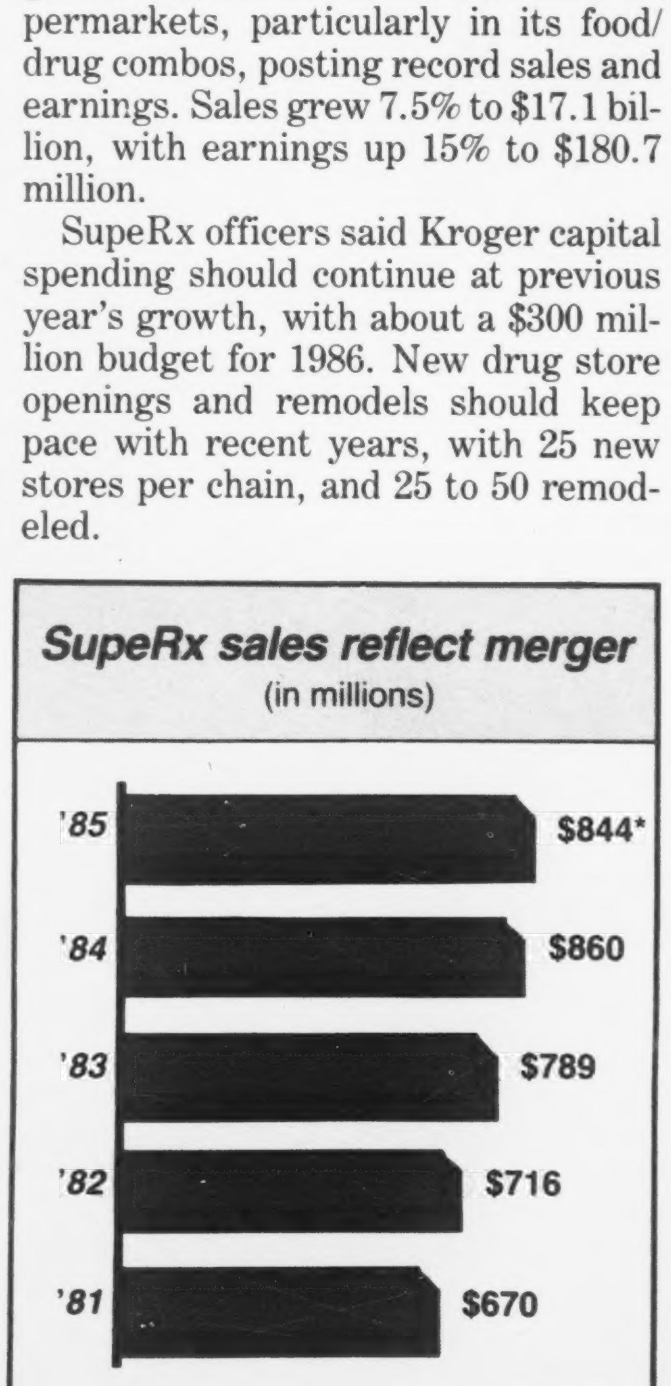
Kroger's total drug store sales were up 35% from 1984, from $859.5 million to $1.157 billion, counting 10 months of Hook sales. Also accounting for partial year Hook earnings, operating profits grew 63%, from $27.4 million to $44.1 million.

Kroger reported that same store drug store sales were up 5.5%, in line with SupeRx sales growth last year. It said average drug store sales per square foot rose from $125 to $148.

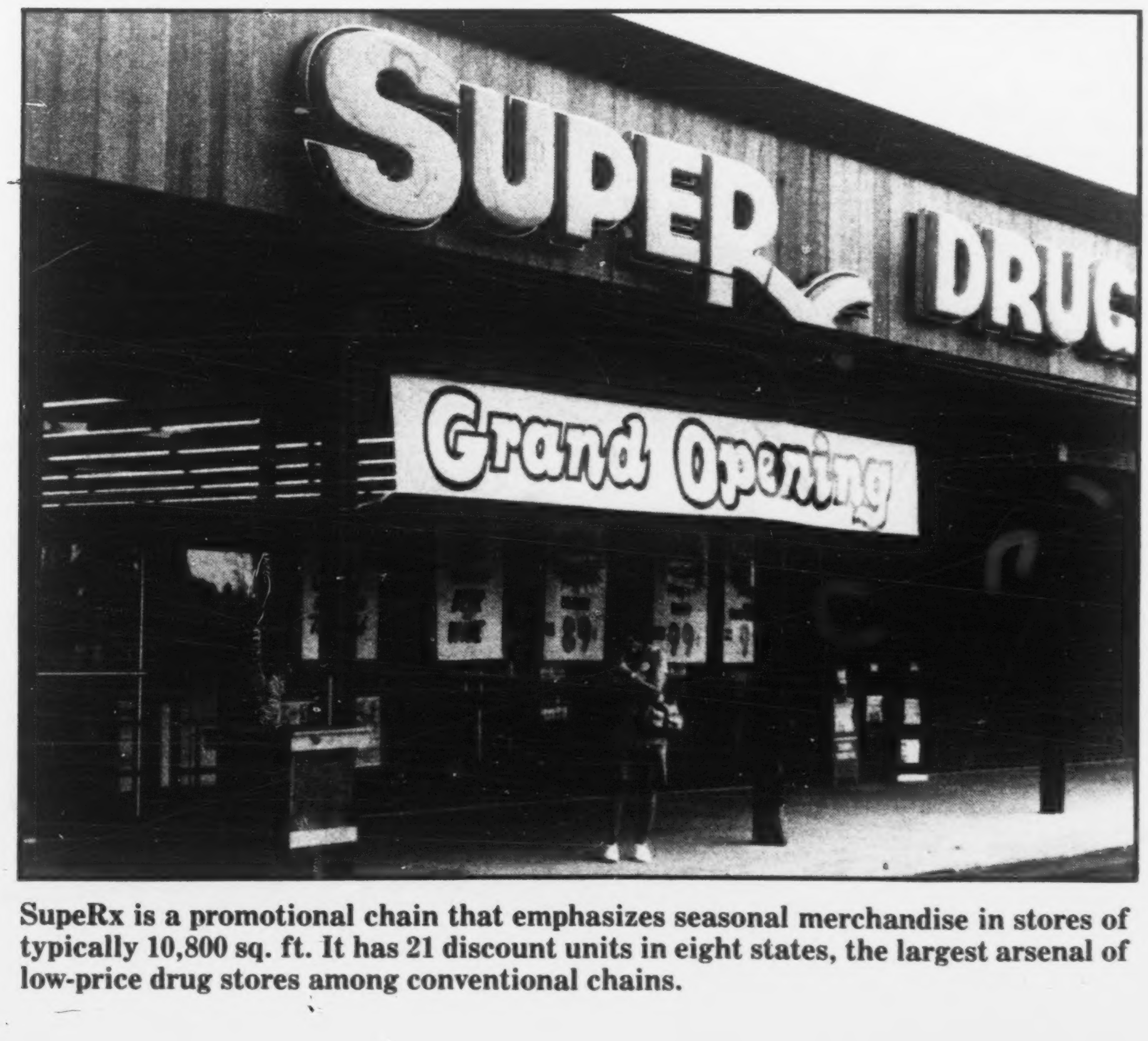
Kroger, the country's second largest food chain in sales, emphasized growth in convenience stores and supermarkets, particularly in its food/drug combos, posting record sales and earnings. Sales grew 7.5% to $17.1 billion, with earnings up 15% to $180.7 million.

SupeRx officers said Kroger capital spending should continue at previous year's growth, with about a $300 million budget for 1986. New drug store openings and remodels should keep pace with recent years, with 25 new stores per chain, and 25 to 50 remodeled.

SupeRx sales reflect merger
(in millions)



*estimated



SupeRx is a promotional chain that emphasizes seasonal merchandise in stores of typically 10,800 sq. ft. It has 21 discount units in eight states, the largest arsenal of low-price drug stores among conventional chains.

PROFILES

Gray Drug Fair believes turnaround is on track

A tightening of inventory controls and several key upper-management changes boosted Gray Drug Fair's 1985 operating profits to $6.6 million, the highest in three years. Sales rose 8%.

After a disastrous 1984, in which profits plummeted to a paltry $82,000—the worst in the company's history—this past year's performance has Gray management convinced the company's turnaround plan is working.

In fact, according to John Breen, chairman, president and ceo of Sherwin-Williams, Gray's parent company, the sales increase from the drug store segment played a major role in a 6% increase in the corporation's net sales and 19% boost in earnings per share.

Breen credits Gray's marketing organization and a continual refining by its merchandising and operations departments for the improvements in sales and operating profit.

Early this year, Gray reversed its position on downsizing several oversized Drug Fair stores, a plan that had been launched to make that division more profitable.

The abrupt halt in remodeling followed a damaging 1984 third quarter that forced management to turn its attention to increasing sales volume and expanding existing departments.

According to some analysts, if Gray wants to increase sales volume, it will have to get a better handle on what appeared to be a severe shrink problem.

"If they can control the shrink, they could handle the operations end of it," said one analyst. "I wouldn't worry that the new promotional emphasis on building sales momentum would depress margins."

It appeared the fruits of Gray's efforts were beginning to blossom under the direction of Mac Allen Culver, appointed in August 1984 by Sherwin-Williams to head the 460-store operation.

Shrink, which had been running between 5% and 6%, dropped to a livable 3%-4%. Culver increased the number of circulars for 1985 by two, bringing the total to 36, and established an employee sales incentive program.

But just as management was becoming confident that Culver's turnaround plans were working, Gray was hit with another set of disappointments.

Third-quarter reports showed a $1.1 million operating loss, and Culver announced he would be leaving the company to accept a job as president of the Northwest drug store division of Pay 'n Save.

In his place, Sherwin-Williams appointed group vice president Carl Bellini to take the reins.

Bellini was no stranger to the president's chair. He had served as the chain's interim president prior to Culver. The second Bellini appointment would make him the fourth president to head Gray Drug Fair since Sherwin-Williams acquired it four years ago.

Before his departure, Culver saw Gray's pretax operating earnings increase 77% through the first three quarters of 1984, with sales figures growing to $445.3 million, up 8.3% from the previous year.

Management changes

Determined to make the turnaround work, Bellini made several strategic changes in high-level management in an attempt to strengthen the chain's merchandising and operations departments.

Charles Ortiz, a 23-year veteran in store operations at Skaggs and Rea and Derick, was named senior vp-operations.

Dan Kendzie, who has since left the company, was named vp-merchandising, and Allan Cohen, formerly of Gaylords Discount Stores, was appointed merchandise manager.

Satisfied the chain was finally on the road to recovery, Bellini stepped down from the presidency to reassume his position as a group vp for the Sherwin-Williams group.

In his place, Sherwin-Williams named Jim Mastrian, a former senior vp-marketing, as president of the drug chain.

With Mastrian at the helm, analysts were once again confident the chain would accomplish its planned turnaround.

"The drug stores are a very important segment for Sherwin-Williams," said one analyst. "They can be a huge source of earning power. Now Mastrian can come in, emphasize the positive and improve morale."

And emphasize the positive he did.

Launches pharmacy promotion

Mastrian, a registered pharmacist, believes the chain's strength lies in its pharmacies. One of his first acts was to announce an ambitious pharmacy promotion campaign for nearly 440 stores.

According to Mastrian, "If we are going to get the company turned around, we have got to turn around the pharmacy, our most important ingredient."

The promotional effort called for installation of a chainwide pharmacy computer system, scheduled for completion or near-completion by the end of this year.

With 144 computer systems currently in place, Mastrian feels Gray will be "in a very competitive position in all our markets."

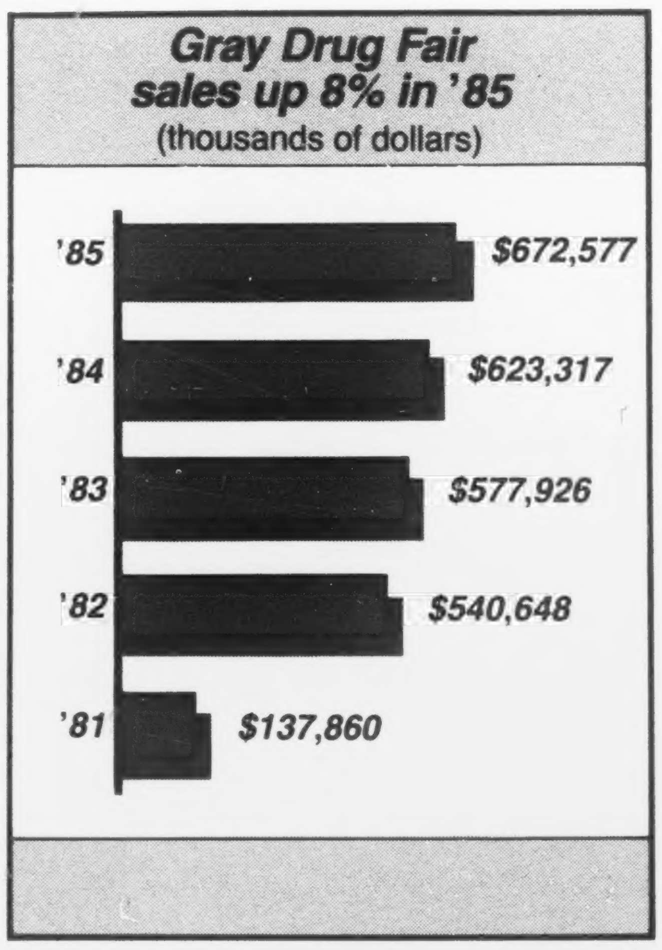
Plans on the drawing board call for a renovation of pharmacy departments that will include improved decor, size and layout.

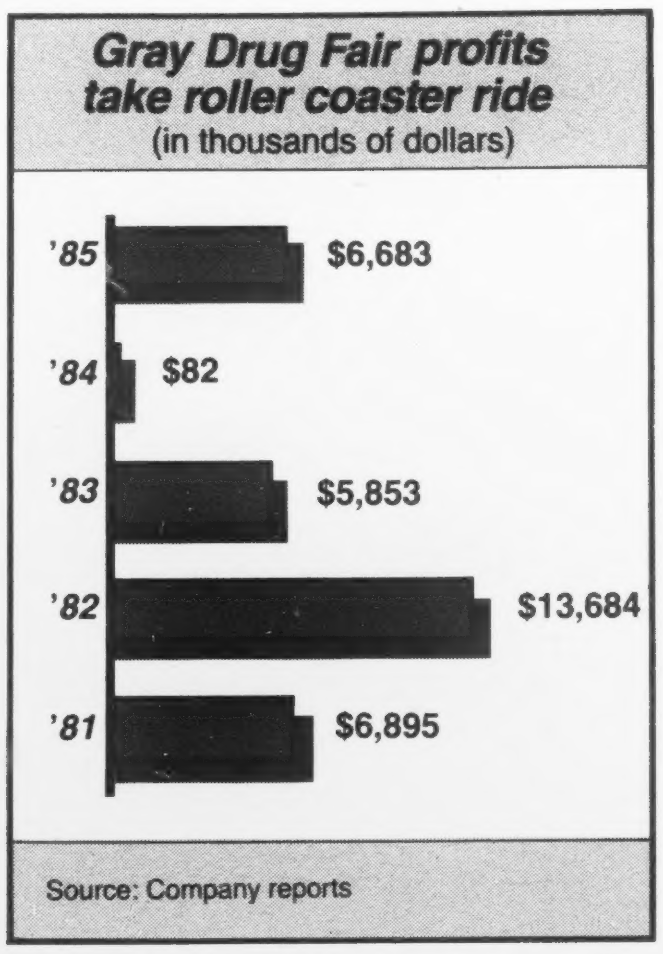
"We want to make the pharmacy department more accessible to the customer," said Mastrian. "We want the pharmacy to be the focal point of the store."

The pharmacy campaign will complement Gray's total reorganization plans, which take in an aggressive store expansion program for the rest of 1986.

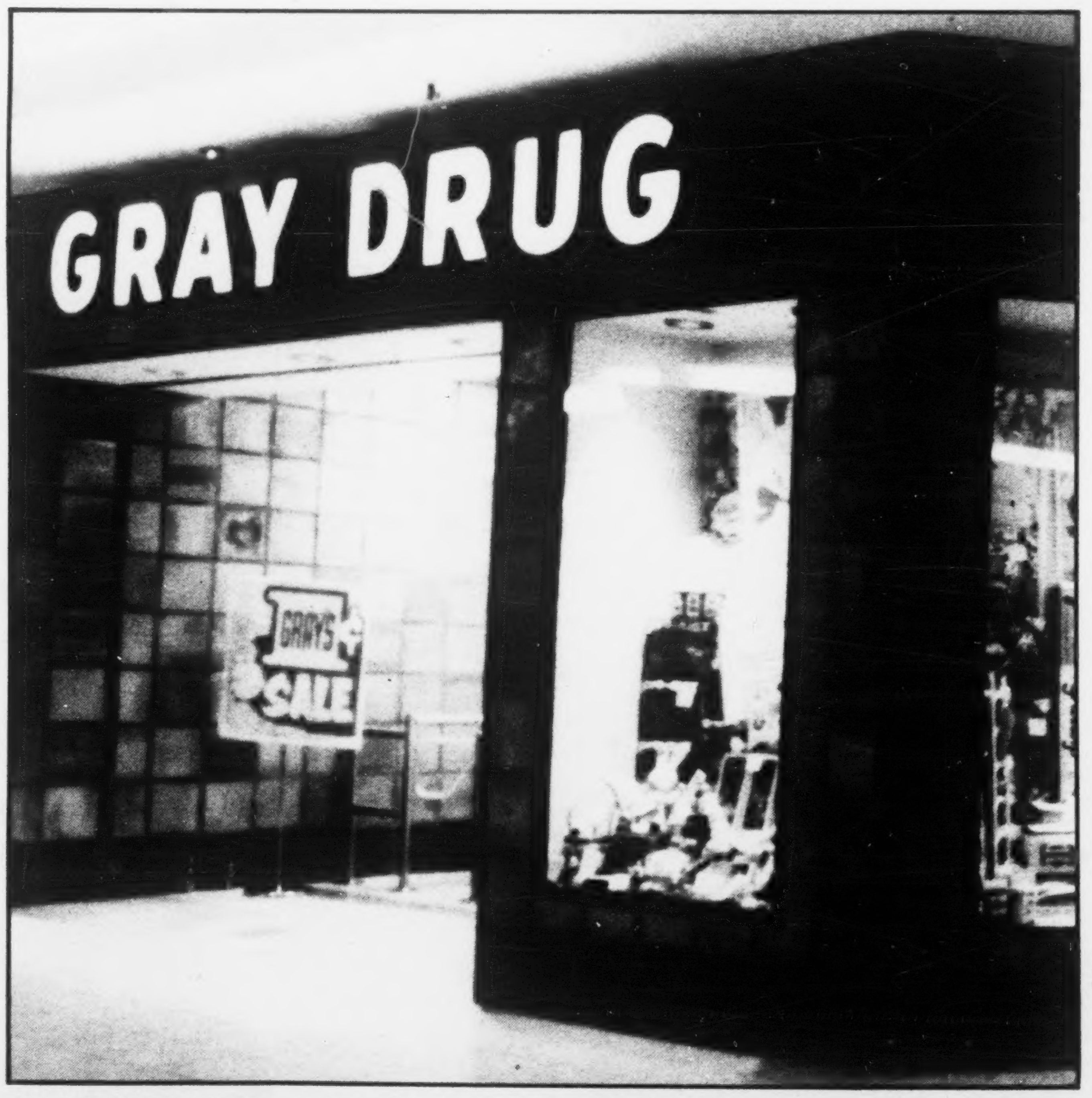
Kicking off the program in late 1985, the chain opened Price King, its first deep discounting operation, in Canton, Ohio. The 20,000-sq.-ft. store is expected to gross between $6 million and $10 million in its first year of operation. The store serves a five-mile radius, with an estimated population of 180,000.

Rounding out the chain's expansion plans are 37 scheduled drug store openings, which will bring the total to 476 by the end of this year.

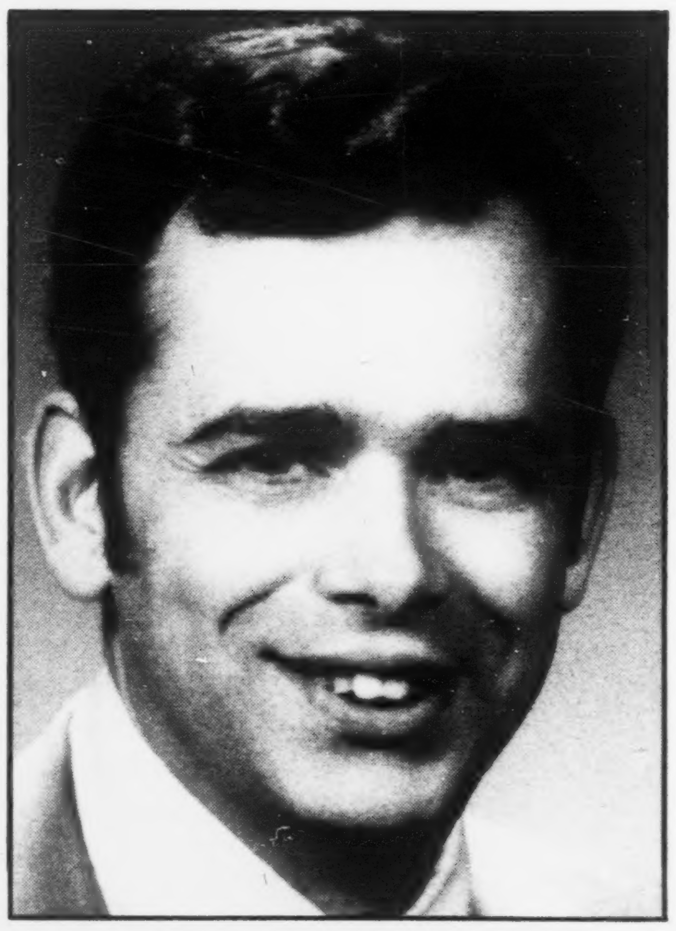

Gray Drug Fair sales up 8% in '85
(thousands of dollars)


Gray Drug Fair profits take roller coaster ride
(in thousands of dollars)

Source: Company reports



Gray Drug Fair's expansion plans include 37 scheduled drug store openings, which will bring the total to 476 by the end of the year.



"If you are going to get the company turned around, we have got to turn around the pharmacy, our most important ingredient. We want to make the pharmacy department more accessible to the customer. We want the pharmacy to be the focal point of the store."

—Jim Mastrian
president,
Gray Drug Fair

PROFILES

Adams repositions itself; eyes 10% earnings rise

PAWTUCKET, R.I. — Adams should be a tougher competitor in 1986, despite the distractions of management and ownership changes in the past year.

Indeed, Adams employees told *Drug Store News* they're pleased by the animated leadership of new president and ceo William S. Sudhaus, who came from the investment banking firm Drexel Burnham Lambert this winter.

He replaced James Salmanson, when observers felt new approaches could make Adams more competitive within its 10-state northeastern markets. Salmanson oversaw the start of Adams' "new era," but resigned voluntarily and ended his family's 53-year association with the business.

The outlook for Adams became unsettled when Pantry Pride—its parent since November 1984—acquired Revlon, the $2.4 billion cosmetics and health care company. Adams, which had produced much of Pantry Pride's profits the year before, would be relative small fry.

Before that were late 1985 efforts to sell Adams at a reported $125 million, with no industry takers. When MacAndrews and Forbes, which controls Pantry Pride, pulled Adams off the block, analysts speculated they'd build up the 417-store, $365 million (calendar 1985 sales) chain for sale in a more favorable market.

Now, however, MacAndrews' commitment to Adams seems firmer. MacAndrews wants to move Adams to another corporate vehicle it controls, Compact Video. Adams would be the essential element in transforming Compact from a $41 million company into a $400-million-plus annual enterprise.

There's sentiment on Wall Street that financier Ronald Perelman, MacAndrews' key personality, will make Compact his next large company, using Adams as its focal point. By being visibly tied to Perelman, Adams might gain easier access to outside financing to implement such programs as possible acquisitions, more prime site selections and computer systems development.

Under Sudhaus, there'll be a single-minded focus on strengthening Brooks stores, the banner under which about all Adams stores appear. He told *Drug Store News* recently he's targeting "better than 10% net earnings growth on a 6%-10% rise in volume this year. We'll be more p- and l- [profit- and loss-] oriented than when Adams was family run."

Adams repositioning will include more competitive pricing, better locations and experiments with new merchandising departments such as video rental. Better MIS capabilities and better store supervision will fortify operations.

Sudhaus wants Adams prices "on a par with other chain stores that stress convenience and assortment rather than price. We're not a discounter, but we won't be a high-priced player anymore."

Site selection

Moreover, bolder site selection strategies should be evident in the chain's estimated 30-40 new stores in 1986. Adams will search for "first-class sites," including malls, and ownership and landlord roles in other shopping centers and business districts, said Sudhaus.

"We'll aggressively go after the best real estate we can find," he said, noting that Adams used to pass up prime sites because they surpassed a threshold of what the company would pay. "Less than 10% of our sites are now owned. More than 70% are in small- to medium-sized towns. We can grow where we are and in metro areas," Sudhaus added.

To support tighter merchandising efforts, Adams has made rapid MIS development a priority. The chain might immediately test scanning in 10% of stores and begin a midyear rollout of pharmacy computers, following a 10-store test throughout this past winter.

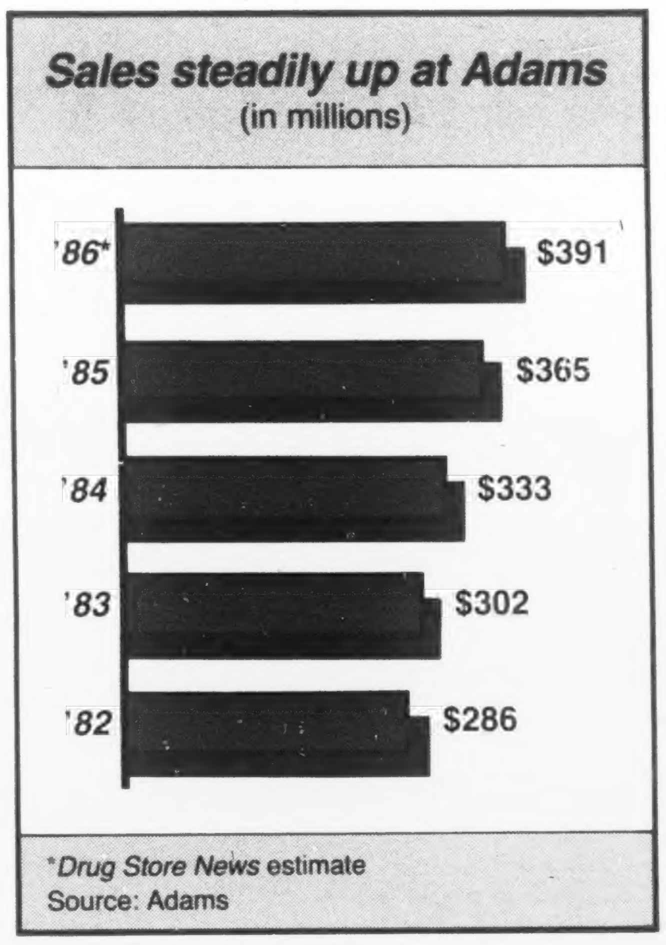
Strengthen field staff

Sudhaus will also strengthen the field supervisory staff as a step to prepare the chain for possible acquisitions. Whether or not Adams takes over new stores, Sudhaus wants field managers closer to each existing store, "so a supervisor might handle 13 locations instead of 20. It'll create more opportunities and mobility for managers," he said, while enabling Adams to better assimilate new store growth.

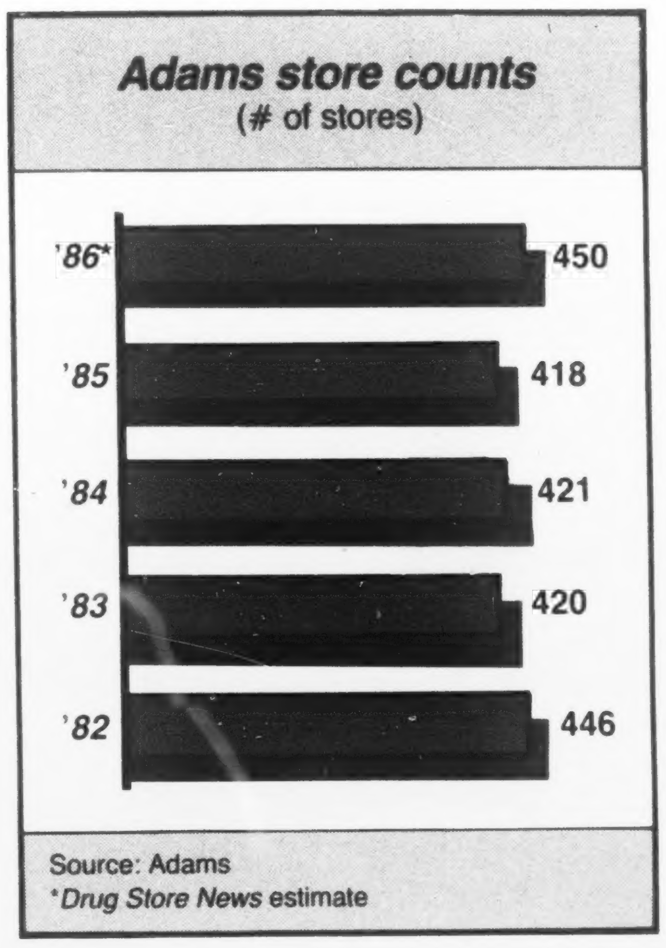
If Adams does become acquisition-oriented, it'd be borrowing a card from the deck of its parents. Pantry Pride itself acquired Adams and Devon Stores in recent years, as it shifted its business away from supermarkets. Its recent Revlon takeover was one of the blockbuster deals of 1985.

MacAndrews stepped in to acquire controlling interest in Pantry Pride last May, after the latter's $14.5 million legal battle to stay out of the hands of disenchanted stockholders from Devon.

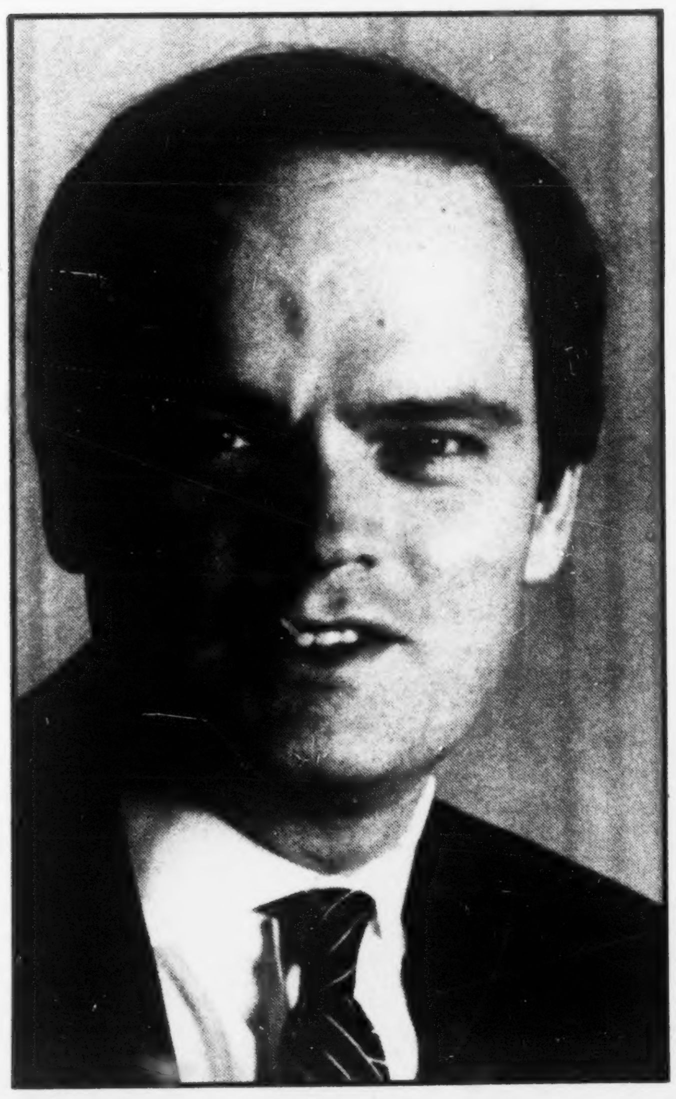
MacAndrews has built its successful track record on diverse businesses—licorice, chocolate and cigars, and now video and retailing.


Sales steadily up at Adams
(in millions)

*Drug Store News estimate
Source: Adams


Adams store counts
(# of stores)

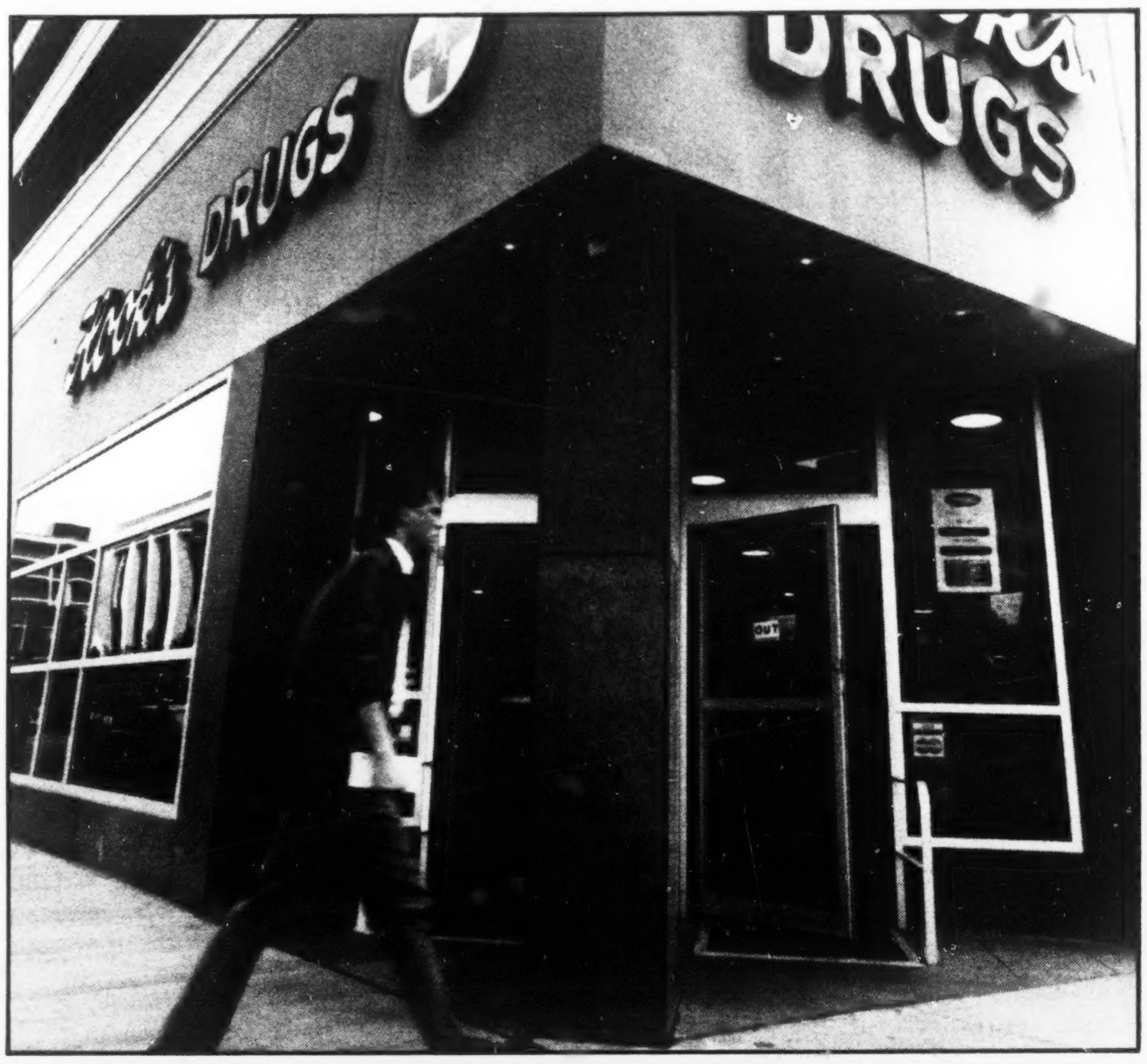
Source: Adams
*Drug Store News estimate


"We'll be more profit and loss-oriented than when Adams was family run."
—**William Sudhaus**
President, ceo
Adams

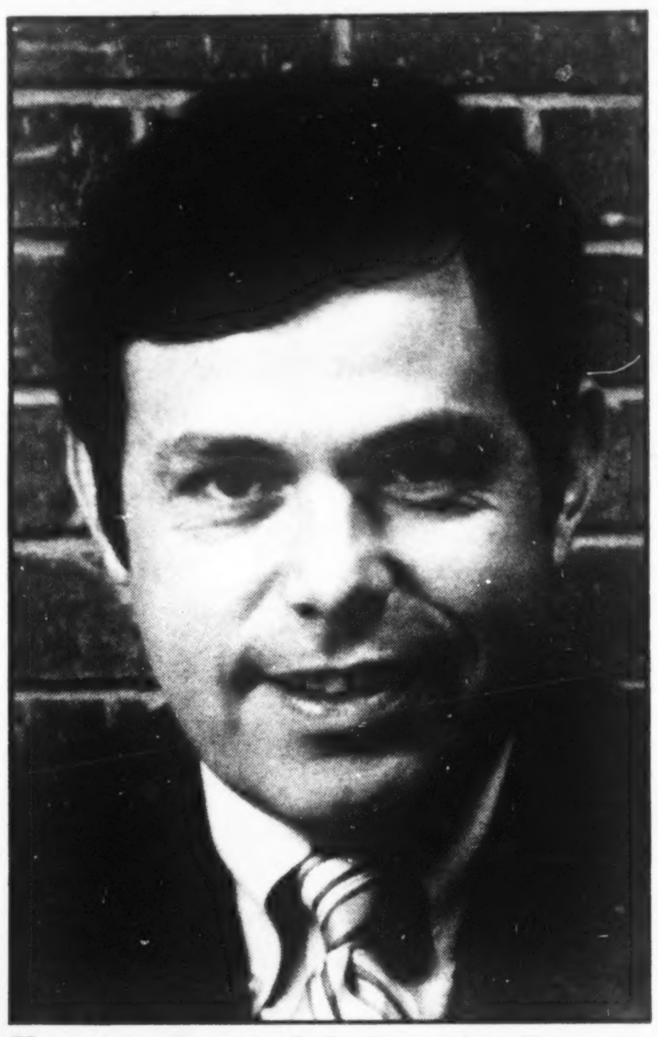
Adams DRUGS
Brooks Drugs
Adams completed conversion of its stores to the Brooks banner, as it looked to strengthen presence in its 10-state northeastern markets.

PROFILES

Hook, under Kroger, reorganizes markets, execs



In 1985, Hook opened 17 stores and remodeled 18 existing stores. Pharmacy continued to be a strong sales generator, with scripts accounting for 37% of total sales—among the highest in the industry.



Kroger promoted J. Douglas Reeves, chairman and president of Hook (pictured), to the additional position of executive vp of Kroger's SupeRx drug stores in a move intended to bolster Kroger's chain drug operations. Reeves continues to report to SupeRx president Gerald L. Wolken.

INDIANAPOLIS — Last year, Kroger, the new owner of the Hook Drug, began to place its stamp on the 86-year-old drug chain by engineering a series of management changes within the company and by reorganizing some of its markets.

The 318-store drug chain headquartered here was acquired in a friendly takeover by Kroger in a cash and stock transaction valued at about $161 million in early 1985. Kroger also owns the 550-store SupeRx drug chain.

Kroger promoted J. Douglas Reeves, chairman and president of Hook, to the additional position of executive vp of Kroger's SupeRx drug stores in a move intended to bolster Kroger's chain drug operations. Reeves continues to report to SupeRx president Gerald L. Wolken, a line of command Kroger established when it purchased Hook. Three regional vice presidents who have reported to Wolken—C. L. "Skip" Morris, Larry Slade and Harold Certain—now report to Reeves.

In his new position, Reeves said there are "tremendous opportunities" for the "exchange of ideas and experiences" between the two drug chains.

Indeed, in 1985, Kroger saw such opportunities and took advantage of them to bolster its chain drug operations.

Last September, 26 SupeRx stores located in Hook's dominant marketing areas of central Indiana and east central Illinois were turned over to Hook. At the same time, five Hook stores in SupeRx-dominant areas, mainly south central Illinois and west central Ohio, were turned over to SupeRx management.

And in similar developments, Kroger transferred the management of SupeRx' only Home Health Care store, in Nashville, to the Hook division, which operates 16 home health care stores. The swap gave the store immediate access to the vast buying power of the Hook Convalescent Aids Centers already in that market.

In 1985, Hook opened 17 stores and remodeled 18 existing stores. Pharmacy continued to be a strong sales generator, with scripts accounting for 37% of total sales—among the highest in the industry.

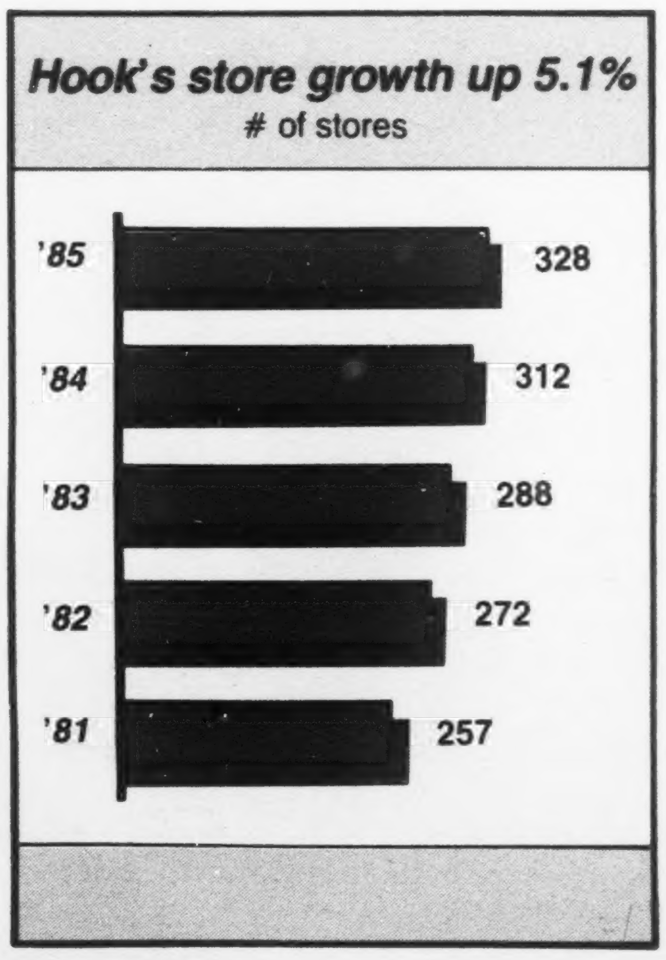
Overall, Kroger did leave Hook fairly free to run its own business as a separate entity. One of the new ventures Hook launched last year was a new customer service and charge card program. Touted as being one of the biggest promotional efforts in the chain's history, Hook gave its customers Promise—a card used to expedite check approval, obtain cash advances or write a check for $25 cash with or without a purchase.

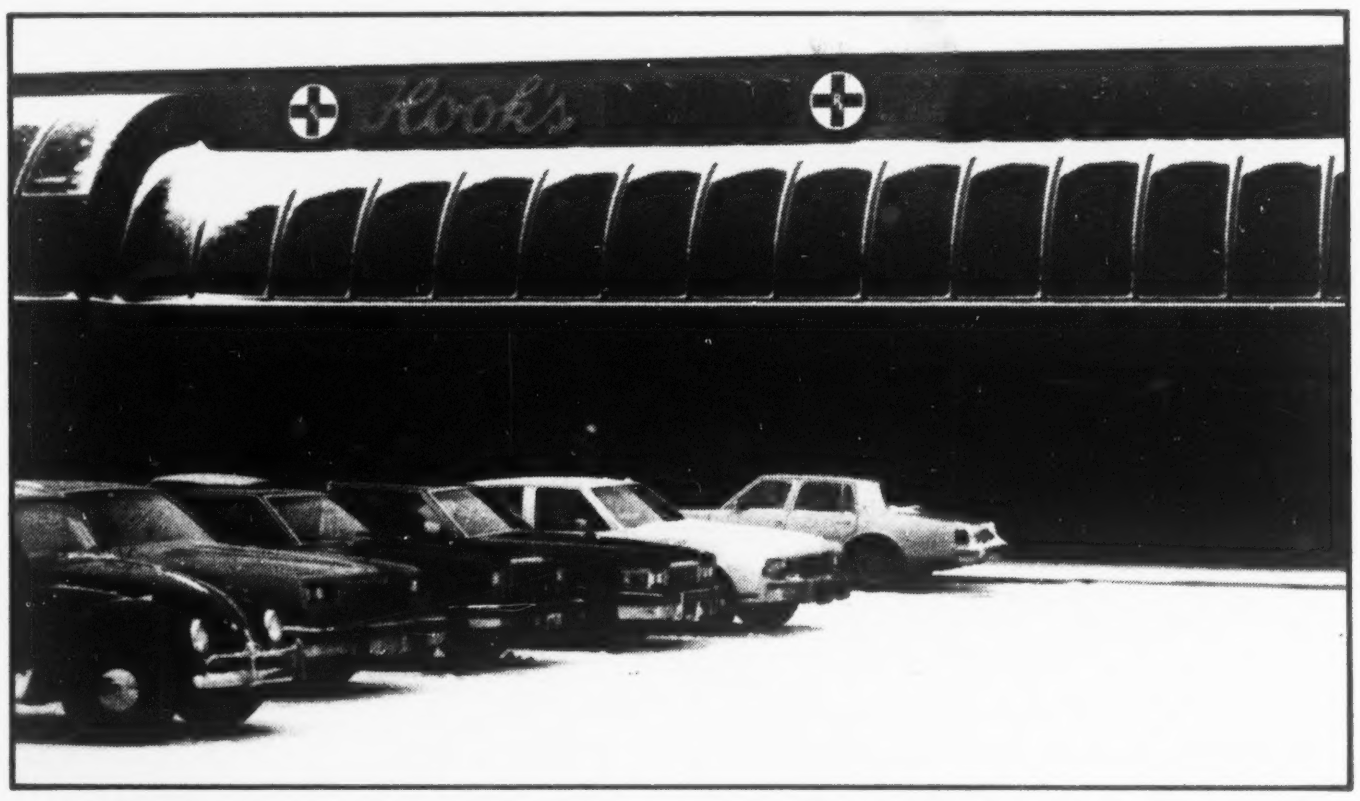
As the first card used to charge purchases in the chain's history, the program provided Hook with a built-in customer list and a demographic base on which to base direct-mail efforts.

The program is administered through the Anthony Wayne Bank of Fort Wayne, Ind. Hook paid a flat fee for the initial setup and was assessed a flat percentage of each purchase charged on the card—a system similar to Visa and MasterCard programs.

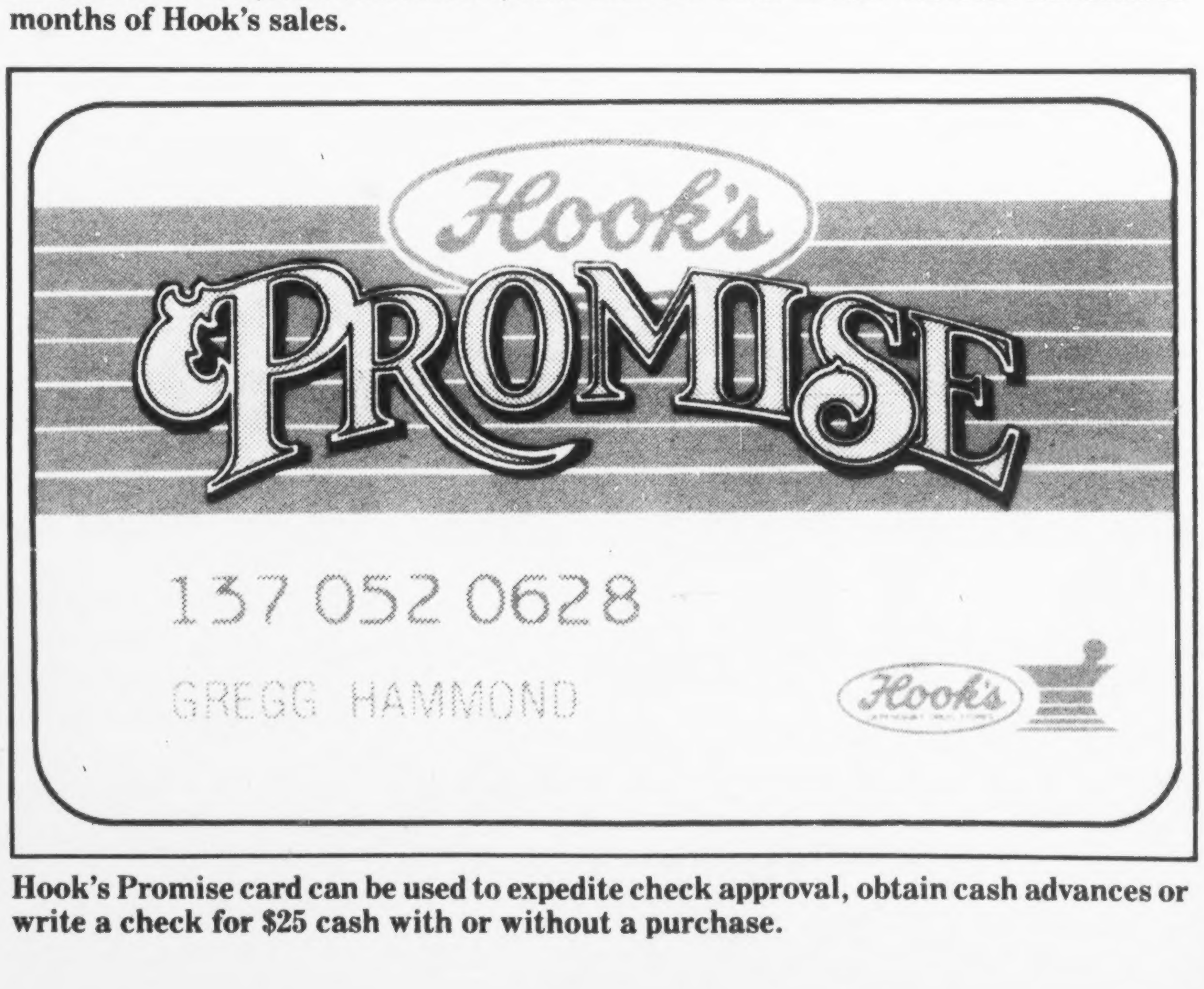
Overall, the addition of Hook to Kroger's drug store fiefdom had a sizable impact on its sales and earnings. Kroger reported that in 1985, its drug store sales rose 35% to $1.2 billion from $859.5 million. That sizable increase included 10 months of Hook's sales. Because of Hook's contribution, earnings also soared for Kroger's drug store division, to $44.1 million in 1985, a 63% rise over earnings of $27.4 million in 1984.

For the entire Kroger company, which includes Dillon Food stores, nearly 500 combo stores, and Kroger supermarkets, sales grew 7.5% to $17.1 billion in 1985, while earnings rose 15% to $180.7 million for the fiscal year.





The addition of Hook to Kroger's drug store empire helped Kroger's 1985 drug store sales rise 35% to $1.2 billion from $859.5 million. That sizable increase included 10 months of Hook's sales.



Hook's Promise card can be used to expedite check approval, obtain cash advances or write a check for $25 cash with or without a purchase.

Perry to focus on integrating 8-state market in '86

PONTIAC, Mich. — Ending a spree of acquisitions, Perry Drug Stores said it will concentrate this coming year on integrating its businesses within its eight-state market.

Perry posted another year of record sales and earnings. Sales increased 40%, fueled by purchases of drug and auto parts stores and climbing revenues in its health care division, which started two new businesses. Sales went from $375 million to $522 million, in line with a five-year compounded growth rate of 31%.

Net earnings—paralleling their recent history of 33% annual growth—reached $9.6 million, 26% above 1984's $7.6 million.

Following an updated five-year plan, Perry chairman and ceo Jack Robinson told shareholders at the annual March meeting that the chain is now positioned to strengthen its auto parts and health care operations, two key diversification areas that he said promise long-term growth.

Robinson said that after 18 months of acquisitions, Perry would avoid further buys, while emphasizing filling in existing markets. In 1986 it will focus on beefing up its drug store presence in urban markets, such as Detroit and Chicago.

During the year, Perry began assimilating two major acquisitions: the 27-store, Detroit-based Apex Drug chain, which it bought in March 1985, and 47 Corvairs auto parts stores, acquired in December 1984, which pushed Perry into the new market of West Virginia.

In April, officers announced a restructuring that decentralized management of the drug, auto, and health divisions. Mickey Kole, senior vp-store operations, was also named president of the drug store division.

By year's end, president and ceo Donald Fox was able to report that the integration of each unit's operations under the Perry umbrella was well under way, through streamlining organizational structures and adopting uniformity in advertising, merchandising, security, and store design.

In the fiscal year ended Oct. 31, Perry increased its total store count to 367 from 256.

RESCRIPTIONS
DISCOUNT VITAMIN CENTER
Centrum

Perry pharmacy sales increased a robust 38%.

By the end of the first quarter in January, Perry had added five more units—four auto parts stores and one A. L. Price deep discount store. In March, Perry was operating 194 drug stores. Fiscal 1986 plans call for 14 new drug stores, including its sixth A. L. Price, planned for a September opening in East Lansing, Mich.

Drug store sales up

Drug store revenue continued its strong growth, although auto parts captured a larger percentage of total revenue than in the previous year. Drug store sales were up 35%, led by $95 million in pharmacy revenues, an increase of 38% over the previous year. The chain moved closer to its goal of 50% sales from the higher-margin pharmacy and auto parts segments, which accounted for 43% of sales.

In drug merchandising, Perry pared back low-return departments by 36% on a store-by-store basis and substantially hiked its private label penetration, with private labels accounting for 11% of the H&BA volume.

Perry's auto parts business continued to grow, and the chain revealed ambitious plans based on projections of growing customer demand in Perry's eight-state Midwest trading area. Perry reduced extensive auto parts departments in drug stores in the neighborhoods where it opened its new Auto Works stores. Eleven of the discount auto stores opened in the year. Perry had 185 at the end of the first quarter 1986 and plans to open 31 more this year.

With their margins of 33% to 35%, auto parts sales grew from $80.7 million (21% of sales) to $125 million (24.4% of sales).

New distribution center

Enhancing its distribution for both drug and auto parts stores, Perry in November completed a 175,000-sq.-ft. addition to its Pontiac distribution center. With a 4.5 mile system of mechanical conveyors and a laser scanning system, the 400,000-sq.-ft. facility increased floor space by 86%.

Perry also launched two new health care initiatives, as the division's sales soared from 1984's $1.6 million to $11 million.

Perry, in a joint venture with the Henry Ford Health Care Corp., opened its first Comfort Care department in a Warren, Mich., drug store. It was followed by three more. The departments offer full lines of durable and nondurable home health care products, and trained assistants.

Perry said at the annual meeting it had amicably dissolved its partnership with the Ford company, which had acted as an adviser. But officers predicted new partnerships with other health care groups were likely.

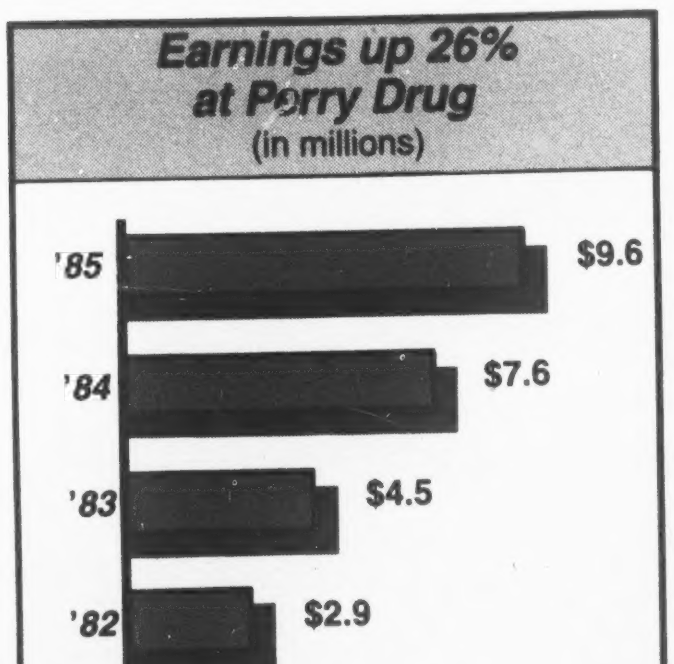
The chain also began its Comprehensive Pharmacy Services, a business for providing drugs to health care facilities. By March, CPS was filling 8,500 prescriptions a month for nursing home patients in Detroit and Grand Rapids, Mich.

Perry HealthNet

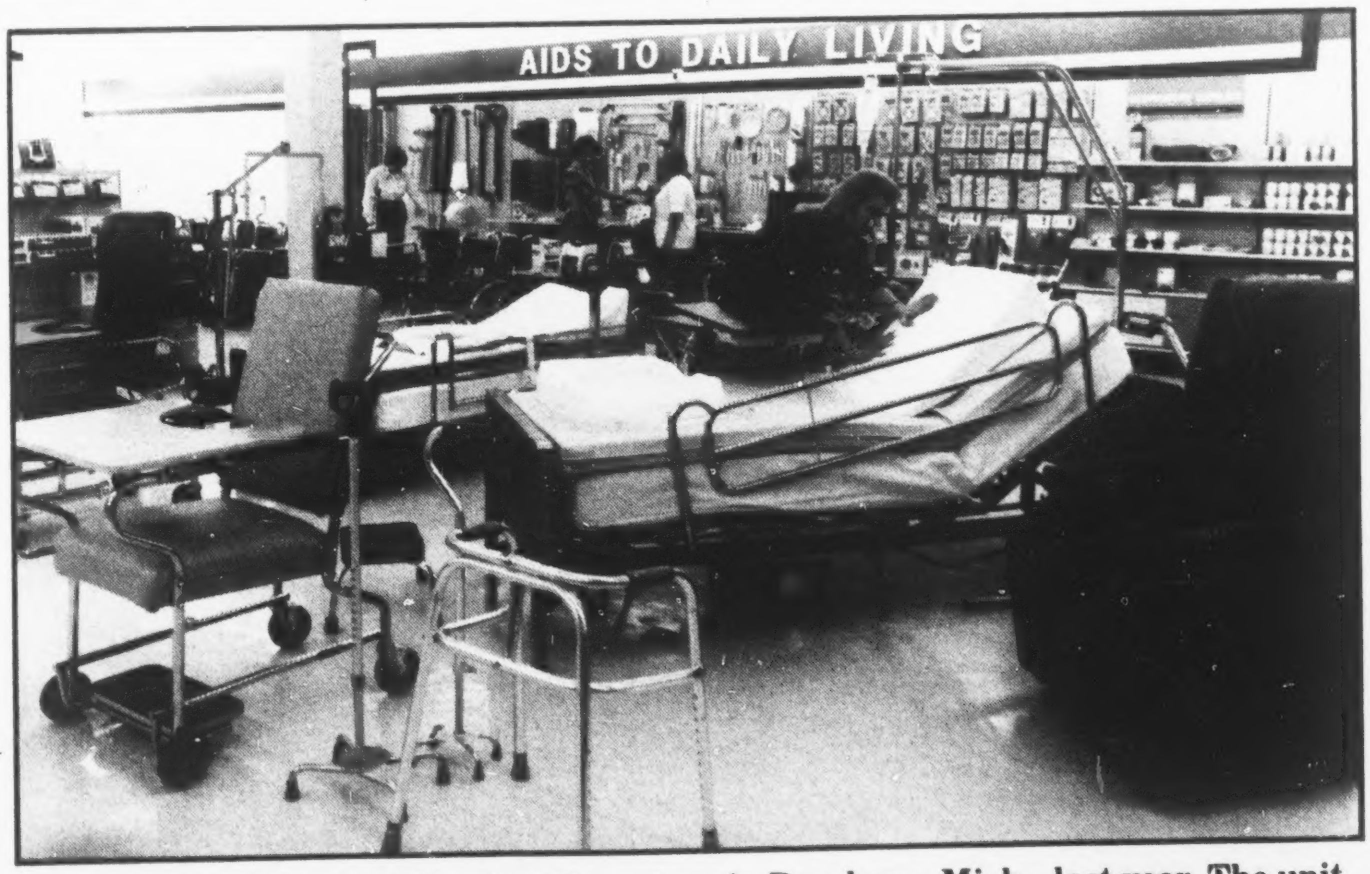
Consolidated under the marketing name Perry HealthNet, the new ventures in health care joined Perry's Flint Medical and Surgical Supply Co., which sells medical equipment; its Bioanalytical Procedures Lab, which offers laboratory services; and its dental care operations, offering services with affiliated professionals.

The new year's first quarter supported Robinson's forecasts of a $1 billion company by 1990. Sales and earnings grew, although interest costs were more than double those of the comparable period last year. The increase resulted from the heavy debt load from the acquisitions.

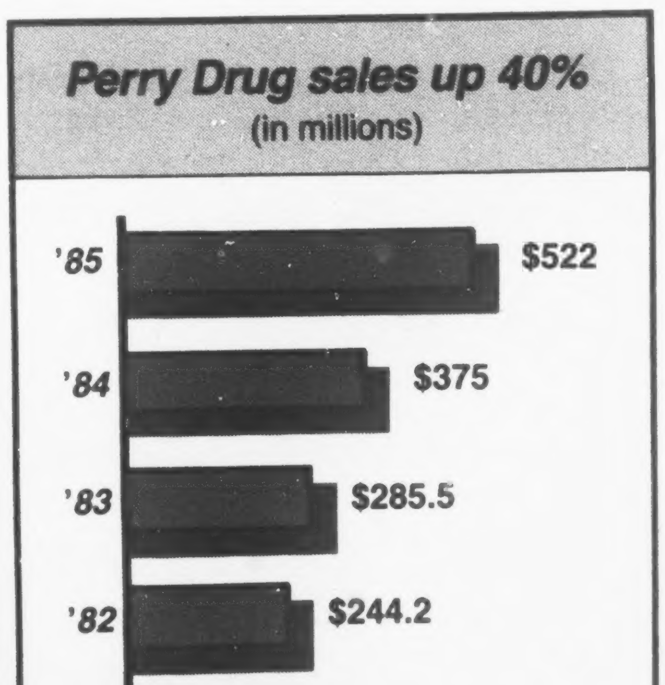
First-quarter sales hit $162.6 million, up 34%, and net earnings totaled $3.7 million, up 6%. Interest costs in the quarter were $2.2 million, compared with $900,000 a year ago.


Earnings up 26% at Perry Drug (in millions)

Source: Company reports

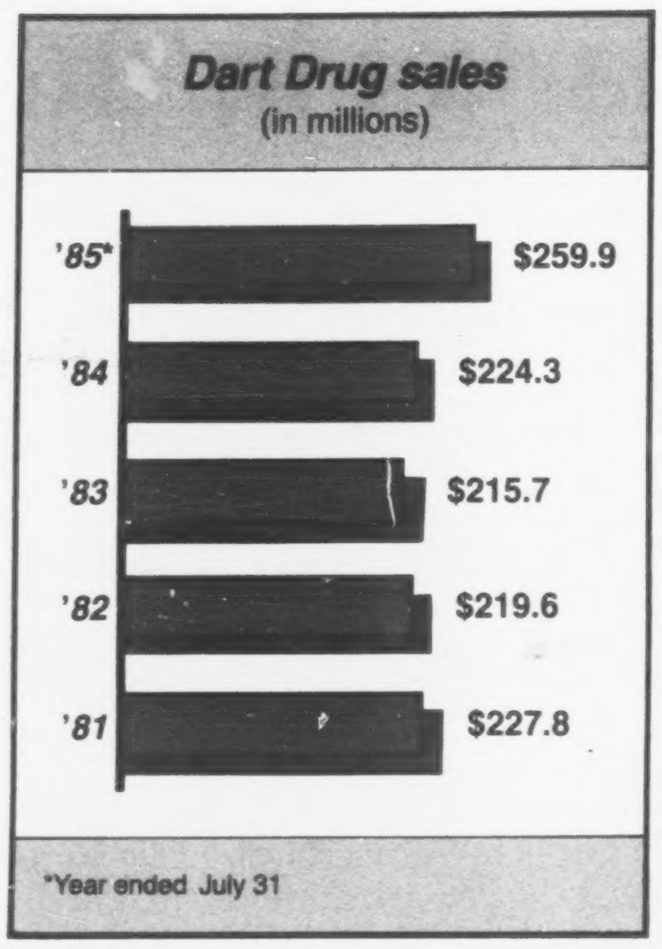


Perry launched its first Comfort Care store in Dearborn, Mich., last year. The unit, which sells home health care equipment and supplies, was followed by three others.


Perry Drug sales up 40% (in millions)

Year ended Oct. 31

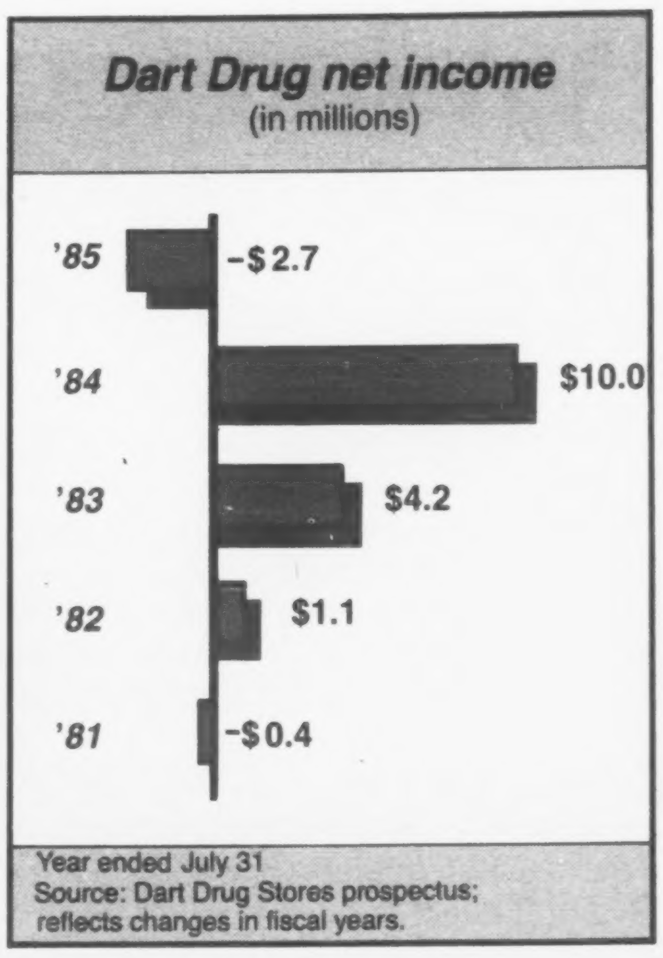
PROFILES



*Year ended July 31

Dart IS Discount
Dart IS Discount
50%

Dart's corporate plans include reasserting its strength as a seasonal retailer and a discounter, while building up its everyday H&BA, prescription and housewares departments.



Year ended July 31
Source: Dart Drug Stores prospectus; reflects changes in fiscal years.

Dart financing to raise image, push expansion

LANDOVER, Md. — Investors are about to tell Dart Drug Stores if they think the 78-store discount operation is on track.

The company was responding to SEC comments at presstime on a proposed $150 million public debenture offering—expected to occur in April—that would strengthen its finances and enable the chain to build more stores and add electronic POS faster.

A bond sale would enhance cash flow by $48 million over the next five years and let Dart retire more than $100 million of remaining leveraged buyout debt without repaying principal until 1994. Executives eye a public stock offering well before then—possibly by 1989—once the chain elevates its store-level image and has its store expansion program well under way.

The company will remain highly leveraged, but without short-term encumbrances.

"We're securing our future, not mortgaging it," said Dart chairman, president and ceo Stephen Hansbrough.

Dart, working toward its $300 million sales goal this year, is moving on several fronts that mark a new direction for the private retailer. Under Hansbrough, who assumed the top spot from former chairman Al Towle last October, Dart plans to:

- Open 8 to 10 new stores annually in each of the next five to seven years. Slightly more than half those stores will be conventional size to help cover about three dozen targeted suburban areas throughout the Greater Washington market. The rest will be a downsized 5,000-sq.-ft. prototype that'll gain Dart access to downtown business centers and densely populated inner-city neighborhoods. Dart in recent months has opened two such stores.

"We want to be the hometown chain . . . be downtown in a big way . . . to service everyone who lives and works here," Hansbrough told *Drug Store News*, adding that no chain has yet focused on the downtown potential of the nation's capital.

- Start a three-month test of scanning in at least two stores by mid-'86, with an eye toward chainwide implementation by mid-'88.
- Reassert its strength as a seasonal retailer and a discounter, while building up its everyday H&BA, prescription and housewares departments.
- Upgrade automotive and possibly hardcover book business, using knowledge gained when it provided distribution, accounting and MIS services to Dart Group's Trak Auto and Crown Books, from the time of management's leveraged buyout in June 1984 through last October.
- Possibly give district managers fewer stores so they can be closer to each and create an emergency sweep team of supervisors to uplift underachieving stores.

Stores averaged $3.5 million last year. In comparison, the downsized prototype is expected to produce about $2.5 million annually, or $500 sales per square foot after 9 to 12 months of operation, and $3.7 million at the end of its second year.

Hansbrough and vice chairman Joseph Santarlasci Jr. are attempting to bring Dart out from the shadow of the Hafts' Dart Group, which they claim "used Dart Drug Stores as the cash cow for Trak and Crown."

Local market observers said Dart still has a way to go to convince shoppers their stores can be comfortable shopping havens. Dart executives conceded that out-of-stocks and poor customer service had been problems, but said they're addressing them while working to improve assortments.

Dart Drug Stores severed all ties with the Hafts last October, freeing space and computer capacity and enabling Dart Drug to raise the share of goods going through its distribution center (DC) to 80% and its chainwide fill rate to 98%.

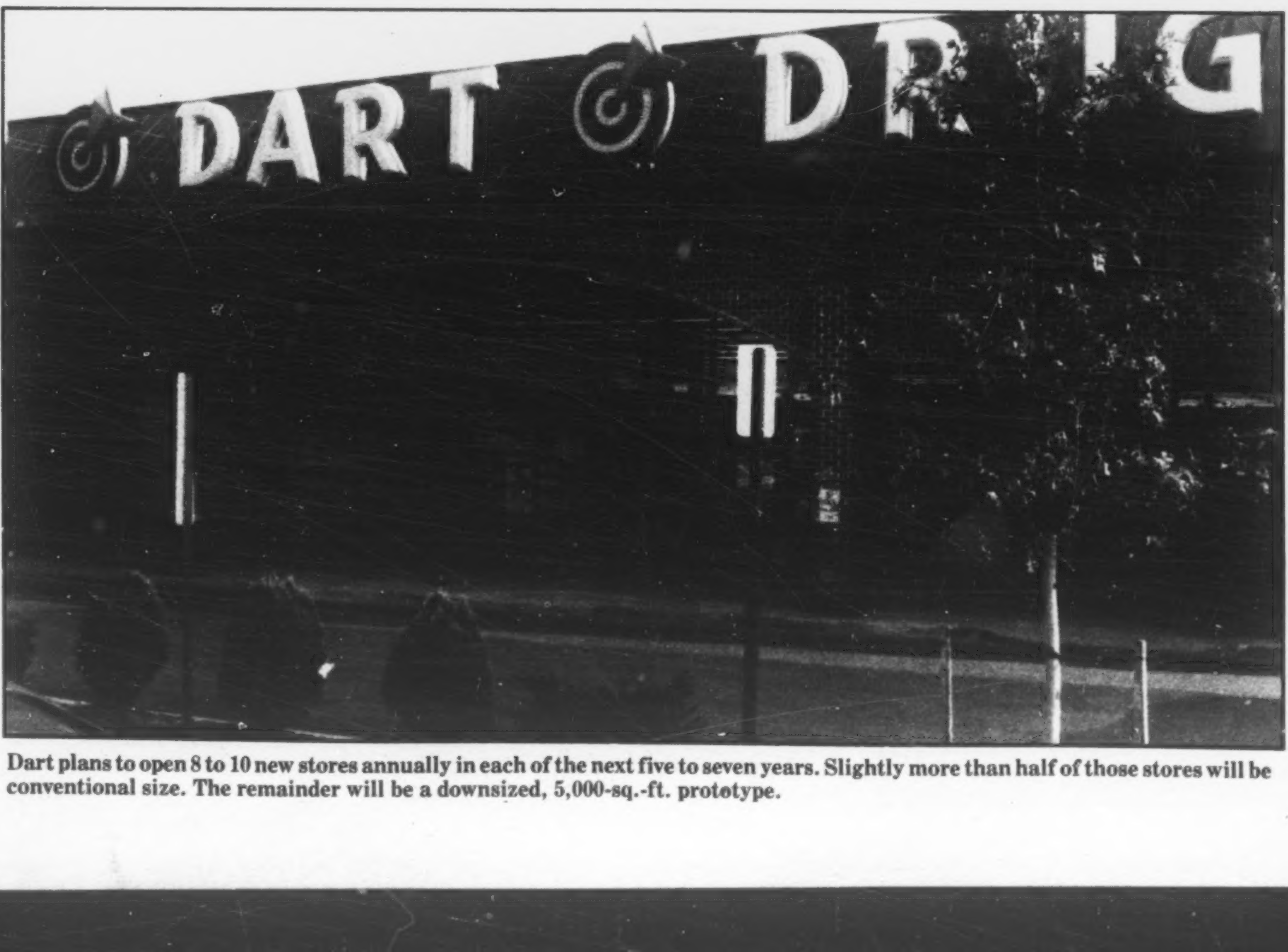
Extra DC capacity is enabling Dart to be in stock more often, particularly on the 500-600 items advertised weekly in the *Washington Post*. The chain is sticking to its low retail price, low operating expense formula.

At the same time, Dart has moved Total Plus, its five-store deep discount operation, to the back burner.

"Total Plus accounted for 9% of our business. We're better off addressing the other 91%," Hansbrough said.

The Richmond, Va.-based deep discounter was reportedly a major bone of contention between Towle and Hansbrough and contributed to Towle's resignation in January.

A year ago, Towle earmarked plans to double Total Plus to 10 stores in 1985. Not one was added, as the company decided to concentrate instead on its 17 drug/home center combination stores, ranging from 30,000 to 50,000 sq. ft., and conventional stores, ranging from 10,000 to 20,000 sq. ft. Today, downsized stores at 4,000 to 7,000 sq. ft. are also a critical focal point.



Dart plans to open 8 to 10 new stores annually in each of the next five to seven years. Slightly more than half of those stores will be conventional size. The remainder will be a downsized, 5,000-sq.-ft. prototype.

PROFILES

Genovese refocuses on Greater New York market

Genovese, working out the kinks in its 155,000-sq.-ft. distribution center, has raised its non-store-door share of goods from 40% to 62% currently, and expects to handle 75% of store merchandise through the DC by mid-1987.

MELVILLE, N.Y. — Genovese Drug Stores is repositioning itself for a profit rebound in 1986.

By selling eight Connecticut stores to Fay's last year, the 77-store chain skirted further New England competition. Seven Genovese stores still in southern Connecticut now represent its northernmost sites and ambitions; Genovese's sights are trained on New York City boroughs and close-in suburban markets.

Among six new stores planned for fiscal 1987 (ending next Jan. 31), two have opened already in Long Island (Northport and Hampton Bays), and the rest will be within current borders of eastern Long Island to southern Connecticut to central New Jersey. New stores will continue in the current 11,000-12,000-sq.-ft. prototype.

That's one of the few parts of Genovese that hasn't changed lately or is not about to change, according to a recent interview with Donald Gross, vp-marketing.

Genovese now considers itself better able to battle deep discount competition from Rock Bottom and food/drug retailer Pathmark because within the past year, it's gotten itself: a new president; a new, automated distribution center and volume buying discounts; a revamped private label program; more aggressive pricing and better targeted advertising; and a new stress on cost containment.

"There's an excellent bridge between operations and merchandising now," said Gross. He was referring to the mix of Patrick Edwards, who was recruited from Allied Stores last summer to become president, and Allan Patrick, a 16-year Genovese veteran, who had been operations director and now heads merchandising and advertising.

"Edwards brings a highly systematized organizational approach to Genovese," said Gross. Under Edwards this year, Genovese will embark on its first tests of electronic point-of-sale systems.

That could be the next major step toward better inventory control, after working out the kinks in its year-old 155,000-sq.-ft. distribution center (DC); its start-up costs caused disastrous second-quarter operating results. Since its August opening, however, the DC has enabled Genovese to raise the nonstore-door share of goods from 40% to 62% currently. Gross felt Genovese could be at about 75% by mid-1987, about the same time it'll decide whether to pick up an option on an additional 100,000 sq. ft. at the facility.

The impact of the DC has been felt in all departments, but particularly in health & beauty aids, which Genovese stresses second only to pharmacy.

Revamped store brand

Genovese's private label program, which all goes through the DC, also benefited from enhanced distribution capabilities. Genovese totally revamped its store brand efforts during the past year, adding 25%-30% more items to total 400 sku's now, reducing out-of-stocks through better handling and some new vendors, and devoting more space to private label in its chainwide fliers.

Most important, said Gross, Genovese changed its label and packaging approach to create a consistent look for all its products. "We used to mimic the look of best sellers in each category. We don't do that anymore. We now have a Genovese look," he added, in the manner of Walgreen, Peoples and Fay's efforts.

The result: a 74% private label sales gain over a year ago, when the transition first began, and 45% up in the past six months. He plans no further sku expansion in 1986.

Higher private label margins are helping Genovese to cope with its new, aggressive pricing policy, made necessary by Rock Bottom and Pathmark.

Circle of Value kept

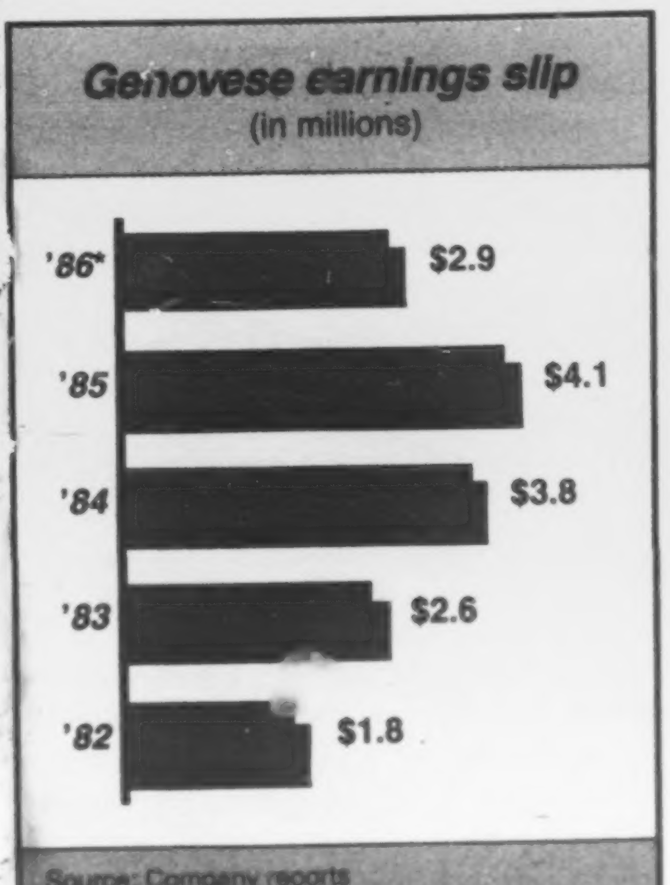
Genovese is still sticking with its Circle of Value program, in which it promotes 200-250 items, largely H&BA and cosmetics, at marked down prices for three or four weeks; the chain then shifts to another mix of 200-250 sku's for the following three-to-four-week period, with some of the same goods remaining on promotion. It's an ongoing year-round program, Gross said.

In merchandising, Genovese's priorities remain pharmacy, H&BA, cosmetics, frontend, seasonal and photo, said Gross. He noted 25%-30% sales gains so far this year in stationery, greeting cards and candy, and strong growth in blank videotapes and toys.

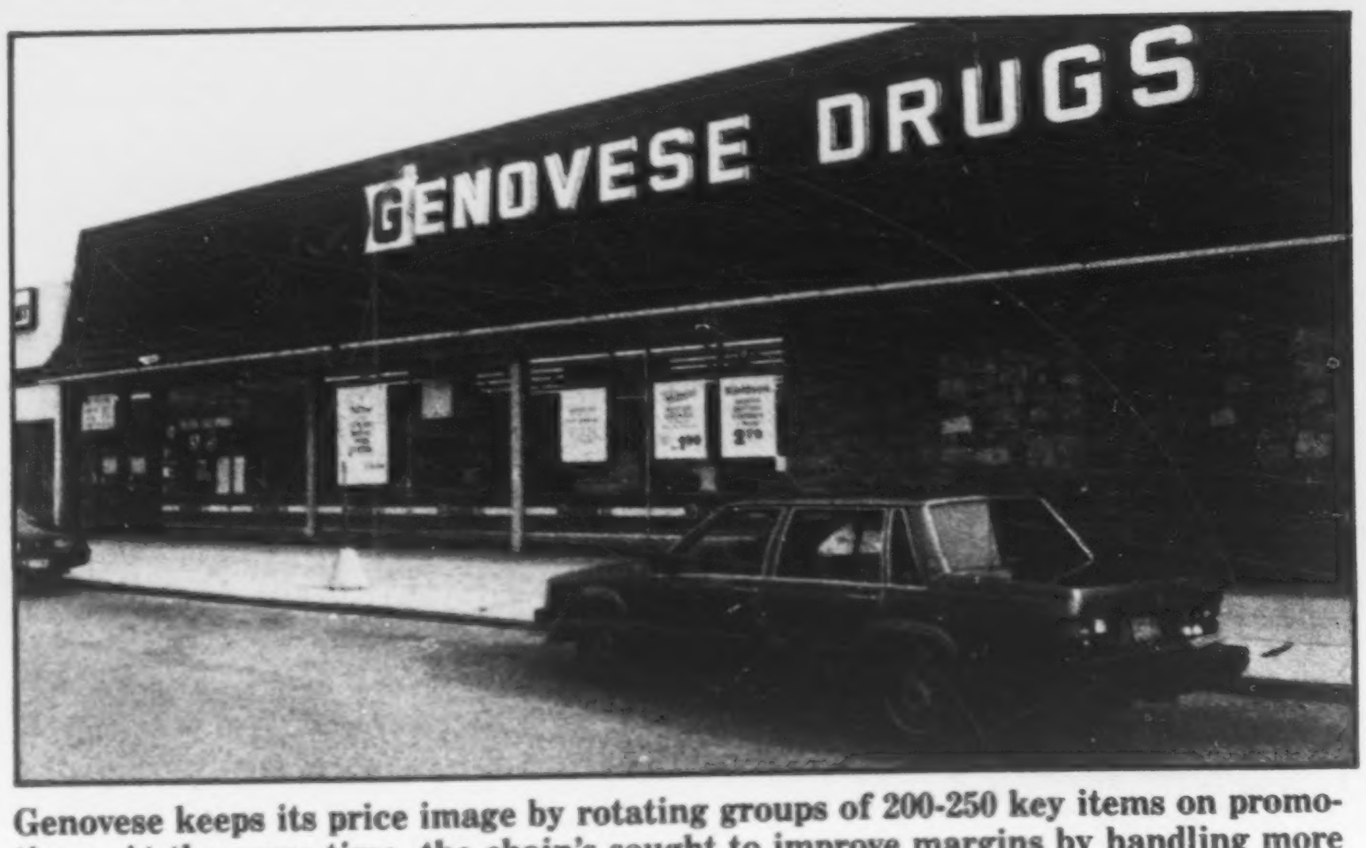
Sales so far in fiscal 1987 are up 12%, following a year in which Genovese reported higher sales and lower net earnings.

Earnings in fiscal 1986 (ended Jan. 31) were affected by start-up costs of the DC, preopening expenses on nine stores and competitive pricing in its markets, Gross said.

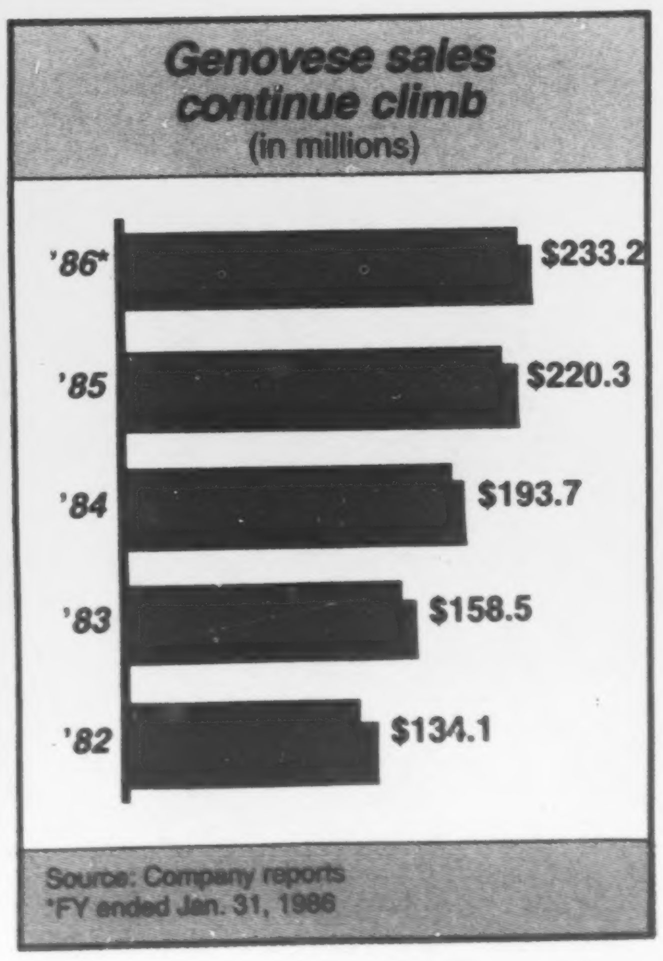
Full-year sales rose to $233.2 million, up from $220.3 million a year ago. Net income slid to $2.9 million from $4.1 million, despite a $2.7 million gain on the sale of nine stores and a parcel of land.



Source: Company reports
*FY ended Jan. 31, 1986



Genovese keeps its price image by rotating groups of 200-250 key items on promotions. At the same time, the chain's sought to improve margins by handling more goods through its DC and buying larger quantities, and revamping its private label program.



Source: Company reports
*FY ended Jan. 31, 1986

PROFILES

Medicine Shoppe marks 6th straight record year

ST. LOUIS— On the long march toward its avowed goal of 1,000 stores by 1990, the largest franchiser of pharmacies in the country, Medicine Shoppe, pulled out its sixth consecutive year of record growth and earnings.

Buoyed by exceptional sales in existing stores and a record number of new operating pharmacies, Medicine Shoppe's sales increased 25.7% to $214 million in 1985. Since 1982 the chain's franchisees' retail sales have more than doubled, while scripts have consistently accounted for 90% of total sales.

In fiscal 1985, Medicine Shoppe opened 88 new stores for a total of 565, and the company had a backlog of 169 licensed agreements. And the sales of new franchises during the year rose 43% to a record high of 147 units, compared with 103 in 1984.

Moreover, in 1985 net earnings increased 32% to $2.96 million, from $2.24 million over the same period a year earlier. And earnings per share rose 24% to 84¢ in 1985, compared with 68¢ per share in 1984.

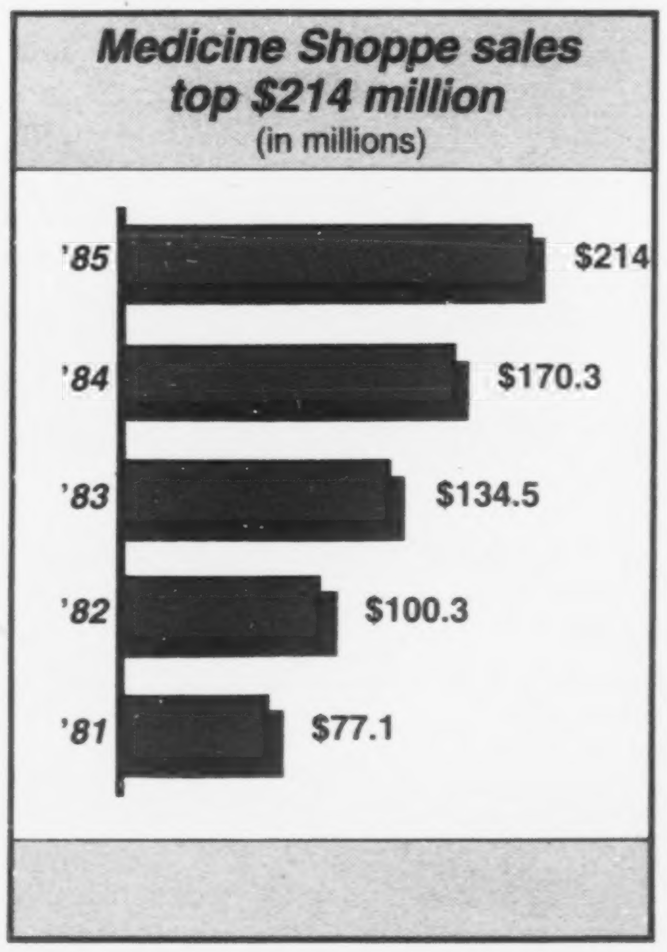
Overall, the company has as much money in cash and short-term securities now as it had after the public stock offering in December 1983, which netted approximately $11.3 million. In such a cash position, the chain is able to finance internally most of its franchises and to hasten the opening of more pharmacies in fiscal 1986.

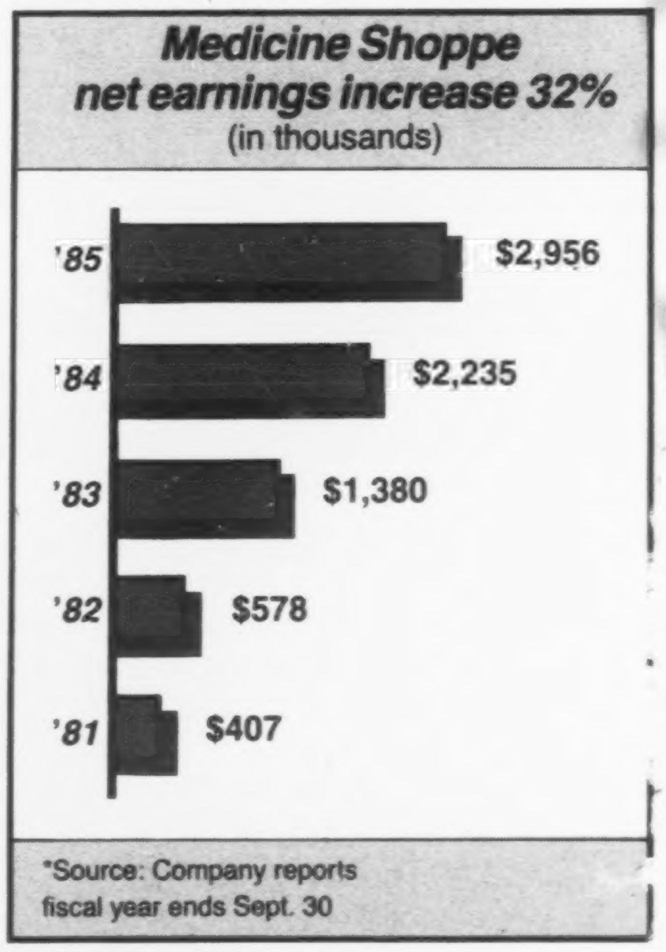
The basic Medicine Shoppe formula—1,000-sq.-ft. stores in neighborhoods geared toward an older population—enables pharmacists to exercise their expertise while being their own boss. And it enables franchisees to set up shop almost anywhere in the country—Medicine Shoppe is now in 48 states—in neighborhoods where chains may be reluctant to move in because the demographics would not support larger drug stores.

Nevertheless, many Medicine Shoppes do compete directly with large chain stores, and the company contends that it can because of the personal attention each pharmacist-franchisee owner gives customers.

However, Medicine Shoppe also supplies its pharmacists with the marketing, financial, and buying clout to make the franchisee's business successful. That makes good business sense, because the chain skims 5% off the franchisee's gross sales.

Last year, Medicine Shoppe ran a number of free community service programs designed to bring new customers into the stores and promote the Medicine Shoppe health image. More than 700,000 people participated in such programs, which included the National Mental Stress test.


Medicine Shoppe sales top $214 million
(in millions)


Medicine Shoppe net earnings increase 32%
(in thousands)

*Source: Company reports
fiscal year ends Sept. 30

Another program Medicine Shoppe gave its pharmacists last year—a monthly financial gross profit analysis plus an in-depth analysis of the store's balance sheet—helped more franchisees maintain the bottom line. Medicine Shoppe's failure rate is under 5%.

Jerome Sheldon, the 50-year-old president and ceo of Medicine Shoppe, intends to stick to the basics, eschew diversification and provide pharmacists with as much as it takes to ensure a successful marriage.

Along those lines, Medicine Shoppe recently negotiated an agreement with PM Systems to obtain HMO contracts for its stores. To date, PM Systems has negotiated eight contracts with Maxicare in Los Angeles, a hotbed of Medicine Shoppe activity.

Big 'B' expects DC to pay for itself by year's end

BIRMINGHAM, Ala. — The opening by Big "B" of a $7 million distribution center during its fourth quarter was enough of a drain on the company to drag earnings down by 9% for the year ended Feb. 1.

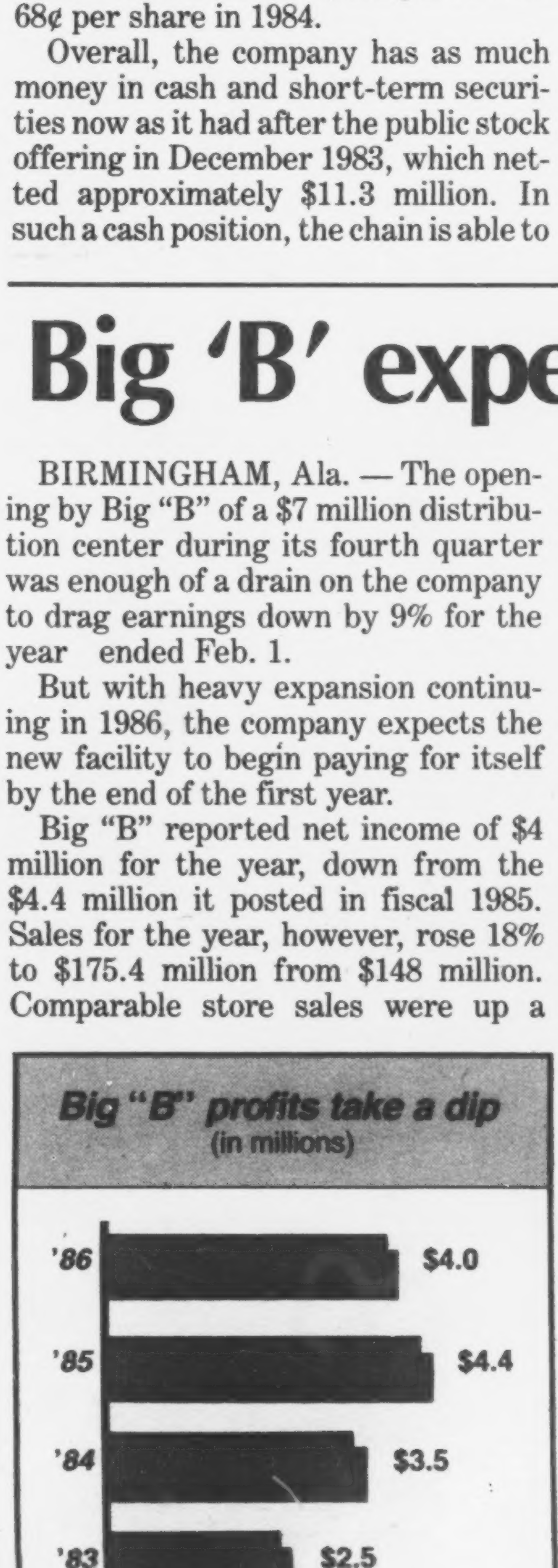
But with heavy expansion continuing in 1986, the company expects the new facility to begin paying for itself by the end of the first year.

Big "B" reported net income of $4 million for the year, down from the $4.4 million it posted in fiscal 1985. Sales for the year, however, rose 18% to $175.4 million from $148 million. Comparable store sales were up a strong 9%.

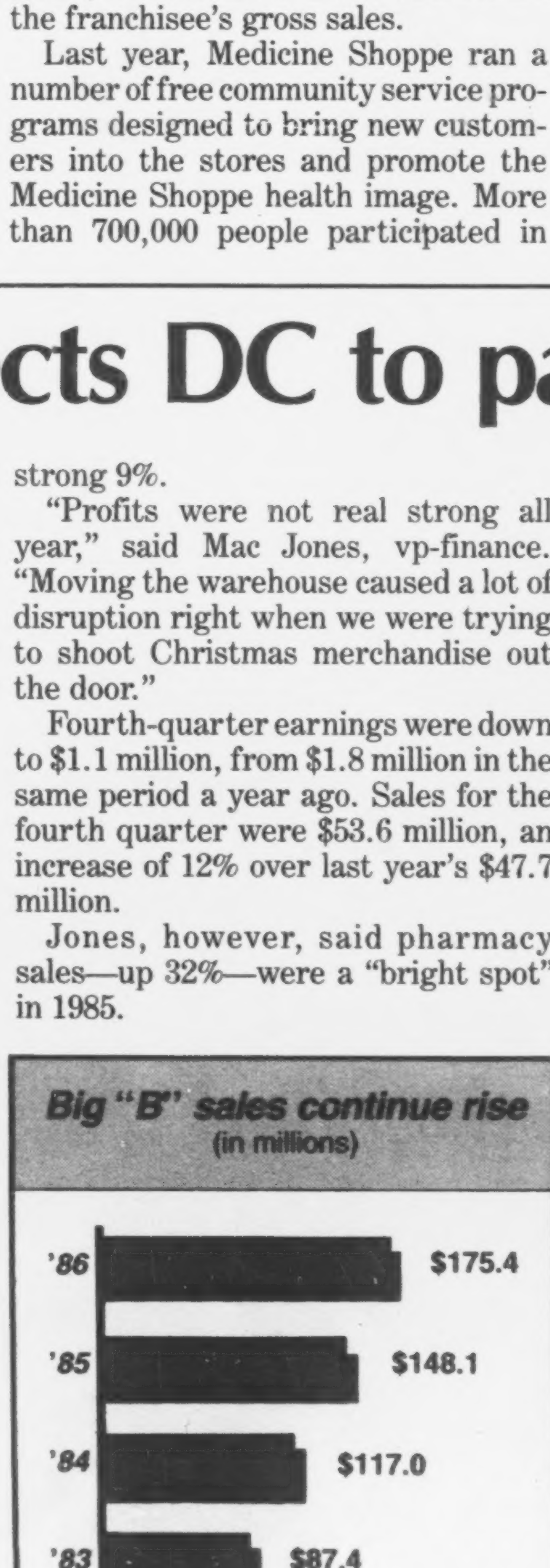
"Profits were not real strong all year," said Mac Jones, vp-finance. "Moving the warehouse caused a lot of disruption right when we were trying to shoot Christmas merchandise out the door."

Fourth-quarter earnings were down to $1.1 million, from $1.8 million in the same period a year ago. Sales for the fourth quarter were $53.6 million, an increase of 12% over last year's $47.7 million.

Jones, however, said pharmacy sales—up 32%—were a "bright spot" in 1985.


Big "B" profits take a dip
(in millions)

Year ended Feb. 1
Source: Company reports


Big "B" sales continue rise
(in millions)

Year ended Feb. 1

The 240,000-sq.-ft. distribution center (DC), opened in Bessemer, Ala., in November, replaced a 90,000-sq.-ft. leased facility. The new DC will give Big "B" the room it needs to stock greater amounts of merchandise for its planned growth.

The chain opened 21 drug stores during the fiscal year. It closed one drug store and opened one home health care store. With its five food and drug combos, the chain now has 134 stores. The new distribution center is expected to be able to serve 250 to 300 stores within a 350-400 mile radius.

About two-thirds of the stores opened in 1985 were in new markets. Three new stores were opened in Tennessee, a state the chain had not previously penetrated. Southern Georgia and northern Mississippi are two additional new markets for the chain. It previously had stores only in northern Georgia and southern Mississippi. The home health care store it opened is in Anniston, Ala., a new market for its home health division, although the chain has drug stores there.

For the coming year, Big "B" plans to open another 25 drug stores and two home health care stores, following its strategy to strengthen existing markets.

"Georgia will get the lion's share," Jones said. "Alabama will get the next largest number, and Florida and Tennessee will get a good bit."

Big "B" has no plans to open more food and drug combos; in fact, there were unconfirmed reports during the year that the company was considering selling the five combos it opened last year.

Combos reported faltering

According to analysts, the chain's five B-Mart food-drug combos have been faltering. Only one of the five was said to be profitable. Two were reported to have nearly broken even, with the remaining ones in the red.

Big "B's" management denied the rumors, saying the stores are not doing as badly as reported.

"They operated better than the previous year," Jones said. "They didn't do as much as we'd expected them to do. But they didn't negatively affect the bottom line."

Still, management this past year admitted that the company had moved into the format faster than it should have and said it had postponed plans to open more combos.

Obstacles cited

The biggest obstacle facing the combos, according to Big "B" management, was training personnel. But analysts who track the chain said the stores lack a competitive edge.

The chain's inability to warehouse grocery merchandise was cited as another damaging factor. The food lines are supplied by Super Valu, one of the largest food wholesalers in the country. With food supplied by outside sources, the chain can't offer as many discounts on grocery items as it would like, an analyst said.

BEST AVAILABLE COPY

PROFILES

Begley diversifies; plans takeovers to forge growth

RICHMOND, Ky. — Despite a disappointing second quarter, Begley ended the first nine months of its current fiscal year with a 35.8% increase in net income and a 10% gain in sales over the same year-earlier period.

Net earnings for the nine months ended Dec. 31 rose to $869,630 from $640,583, while sales increased to $54.9 million from $50.2 million.

Over the past six years Begley sales have increased only about 8% a year—not enough, according to president Bob Begley, to generate the kind of cash flow needed for a vigorous drug store expansion program. At Begley, expansion is financed by internally generated cash rather than public offerings.

As a result, Begley has concentrated its growth in its industrial division, which operates dry cleaning stores, among other things. The reason, said Begley, is that opening a dry cleaning store costs about one-third less than opening a drug store.

So in 1985, Begley opened 17 dry cleaning stores and only one drug store. It also closed one drug store, for a net store count of 43.

"The retail division is a growth division, but it is being held back by a lack of cash flow," Begley said. "While we're getting more profitable, we're putting the money into home health."

Indeed, the company opened six home health care stores in 1985.

In 1986, Begley plans to open another 18 dry cleaning stores and four new home health centers. About four Kentucky drug stores will either be closed or relocated.

However, Begley is planning to add to its retail drug division through acquisitions this year. Currently, nine stores—small chains and independents—are under consideration, according to the president. All are in Kentucky and one state contiguous to Kentucky (Begley would not reveal which state), which is a new market for Begley.

"We're aggressively protecting market share in existing markets and trying to expand in new markets," Begley said.

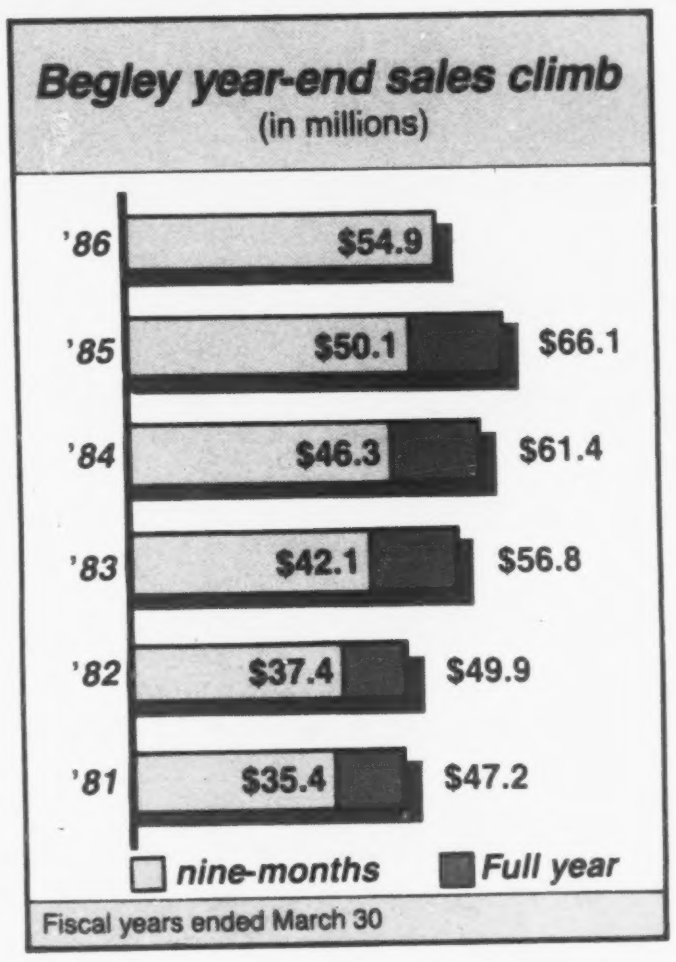
Protection of existing markets has meant strengthening core departments, including pharmacy, cosmetics, greeting cards and vitamins.

In addition, Begley recently launched its own private-label vitamin line. Begley also introduced convenience foods into a number of stores and added liquor departments and post office substations in some stores.

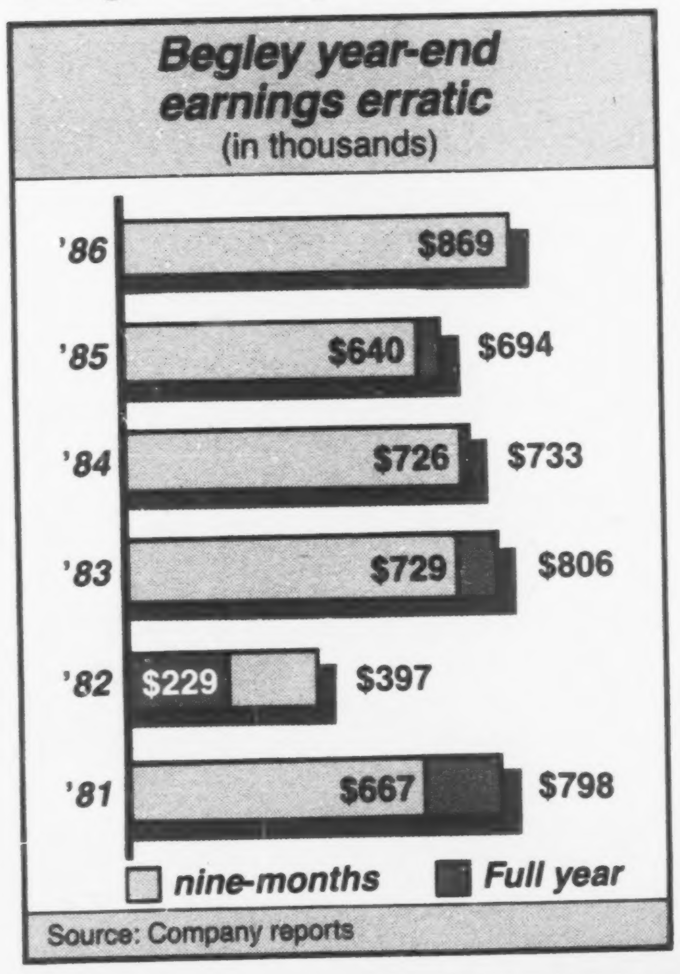
The chain introduced a toll-free health line for customers to discuss health needs with a staff of health care specialists and to order equipment from home. A catalog is available for this purpose. In addition, a respiratory therapist was added to the staff, and other personnel trained.

A further "protective" measure was the cutting of prices to convince customers that Begley can be competitive with deep discounters. It adjusted prices on 380 health & beauty aids, general merchandise and pharmaceutical products. Discounts were advertised on the radio and in local newspapers in Lexington, Begley's major market. Begley said pricing strategy affected front-end margins by only about ½%.

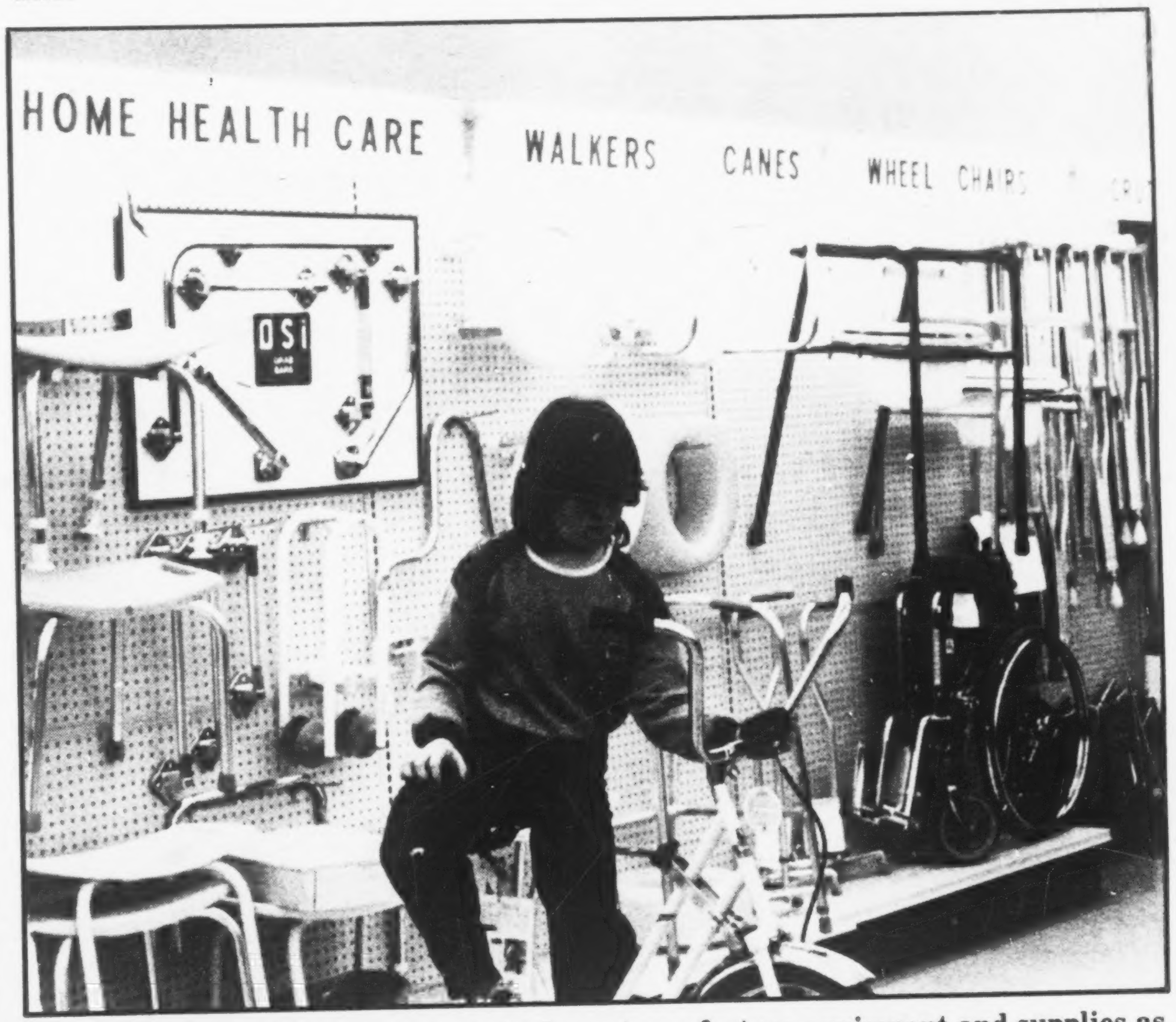
Begley stores operate in an area dominated by major discount store chains, including K mart, Wal-mart, Rose's and Hacks. That discounting competition has hurt Begley's bottom line.



Fiscal years ended March 30



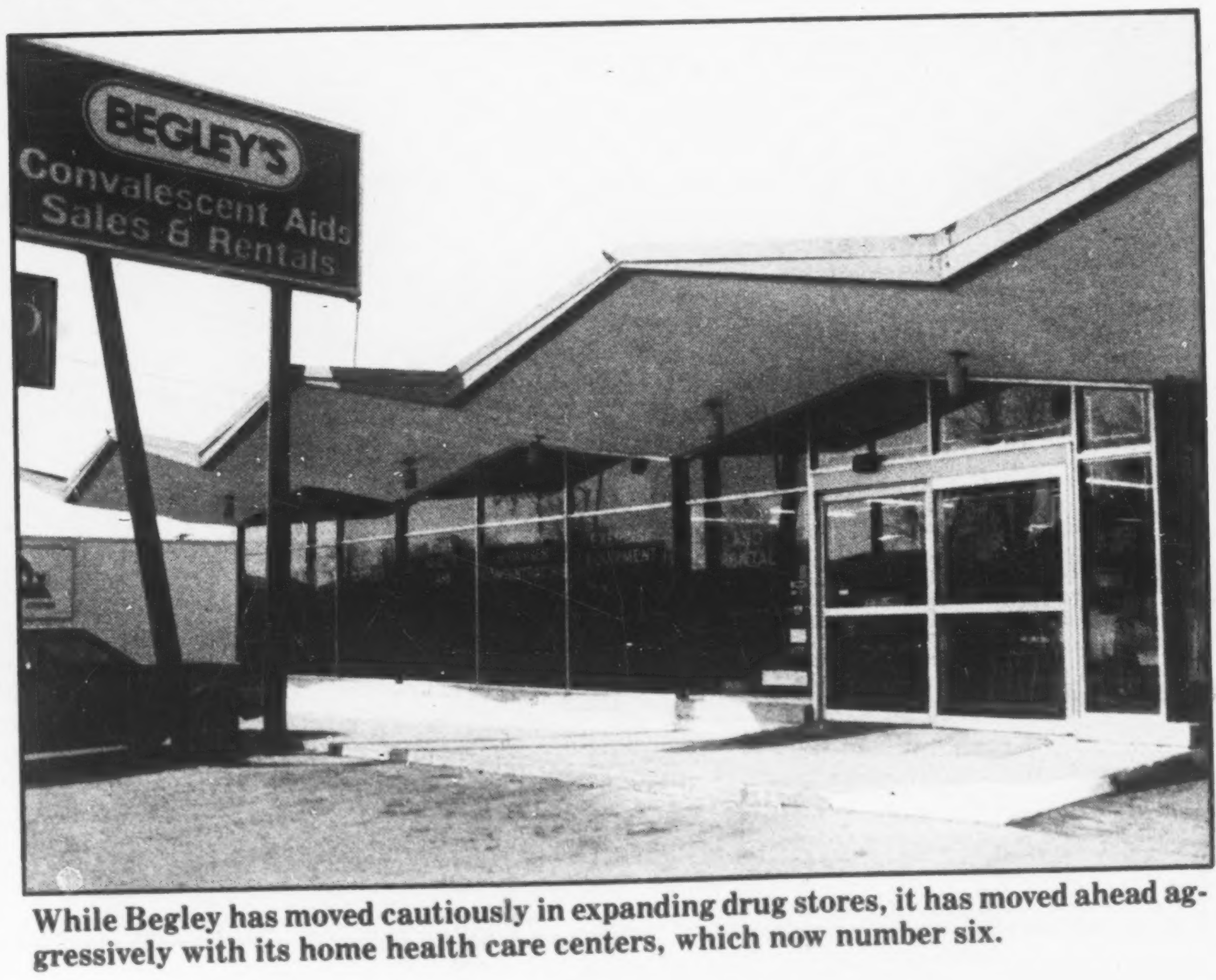
Source: Company reports



Begley home health departments in drug stores feature equipment and supplies as well as exercisers.

Prescriptions
PRESCRIPTION SAVINGS PLAN

Protection of existing markets has meant strengthening core departments, including pharmacy, cosmetics, greeting cards and vitamins. Begley also introduced convenience foods into a number of stores.



While Begley has moved cautiously in expanding drug stores, it has moved ahead aggressively with its home health care centers, which now number six.

PROFILES

Fay's expansion plans unfazed by profit skid

We Cut Prices On... GREETING CARDS 40% Discount
Save 30
WEDDING AND SHOWER PAPER AND DECORATION Save 30

Fay's added three Wheels auto parts stores and six Paper Cutter stationery/office stores (like the one shown) in 1985, and plans at least seven more Wheels and two additional Paper Cutters in 1986.

LIVERPOOL, N.Y. — Fay's has just completed its third down year in profits since going public in 1969.

But that won't crimp expansion plans in the chain's drug stores and Wheels and Paper Cutter specialty stores, which are being funded largely by proceeds of last spring's $35 million subordinated debenture offering.

Sales for the year ended Jan. 31 climbed 21% to $445.1 million, compared with $366.7 million a year ago. Net earnings fell 68% to $2.8 million, from $8.7 million a year earlier.

Fay's fourth quarter followed the pattern of the yearlong trend. Sales in the Christmas quarter were up 20% to $131.6 million, from $109.4 million a year earlier. Net earnings skidded 58% to $1.4 million, down from $3.3 million in fiscal 1985.

Chairman Henry A. Panasci Jr. said lower gross margins in drug stores, particularly "intense competitive activity in upstate New York," hurt earnings. He also cited new store opening expenses and a shorter Christmas season, which limited sales of higher-margin seasonal merchandise.

Chainwide gross margins fell about 2½ percentage points. Price wars in Rochester, N.Y.—where Fay's has about one-fifth of its drug stores—drove the chain to lower prices and margins on virtually all merchandise in order to compete with deep-discounter Freddy's and Wegman's food stores. That hurt the corporate sales and profits picture throughout fiscal 1986—though later in the year, Fay's prices crept back up selectively in most markets.

By last summer, Fay's bought eight Genovese stores in less competitive markets in Connecticut and Massachusetts—marking these territories as prime expansion areas for Fay's.

Fay's had no stores in Connecticut and just two in Massachusetts before the takeovers. Panasci wouldn't be specific when asked where new stores would open this year; but the need for advertising and distribution efficiencies pegs both states as likely markets Fay's will penetrate further.

"We could have relinquished our future to achieve short-term profit goals, but we'll penetrate New England markets further," Panasci told analysts recently.

Overall, Fay's plans to add 12 super drug stores at 15,000 sq. ft., seven or eight Wheels discount automotive stores and two or three Paper Cutter stationery/office supply/book/gift stores this year, Panasci said. Fay's at presstime operated 146 drug stores, (including three opened this fiscal year), seven Wheels and four Paper Cutters.

New store plans

Fay's target of 15% new store growth in calendar 1986 falls short of the 30% pace set in 1984 and 24% growth in 1985. During calendar 1985, Fay's opened 20 drug stores, six Wheels and three Paper Cutter stores. "It's not a scaleback, but a normal course of growth for us," Panasci said.

Fay's is also adding nearly 300,000 sq. ft. to its 280,000-sq.-ft. distribution center (DC) in Liverpool, N.Y., to support new store growth and enable Fay's to buy larger quantities at deeper discounts. Panasci expects two-thirds of the expansion to be completed this year and the rest in 1987 at the earliest.

In addition, Fay's last month opened a separate 85,000-sq.-ft. DC to meet most merchandise needs of Wheels and Paper Cutter stores. The larger drug DC will supply specialty stores with overlapping goods.

The enlarged DC will be able to serve 200 drug stores, better handle seasonal peaks, and enable Fay's to raise the share of merchandise it distributes from 75% currently to about 80%, another Fay's executive said recently.

No urgency on scanning

Inventory management might be further improved if Fay's commits to scanning—though Panasci indicated no sense of urgency at presstime. He's tested a system in Westvale, N.Y., an average-volume store, since last August, but still has "many more questions. The cost of equipment is coming down very quickly. When we can see ample payback, we'll go full blast with a system we feel answers our needs," Panasci said.

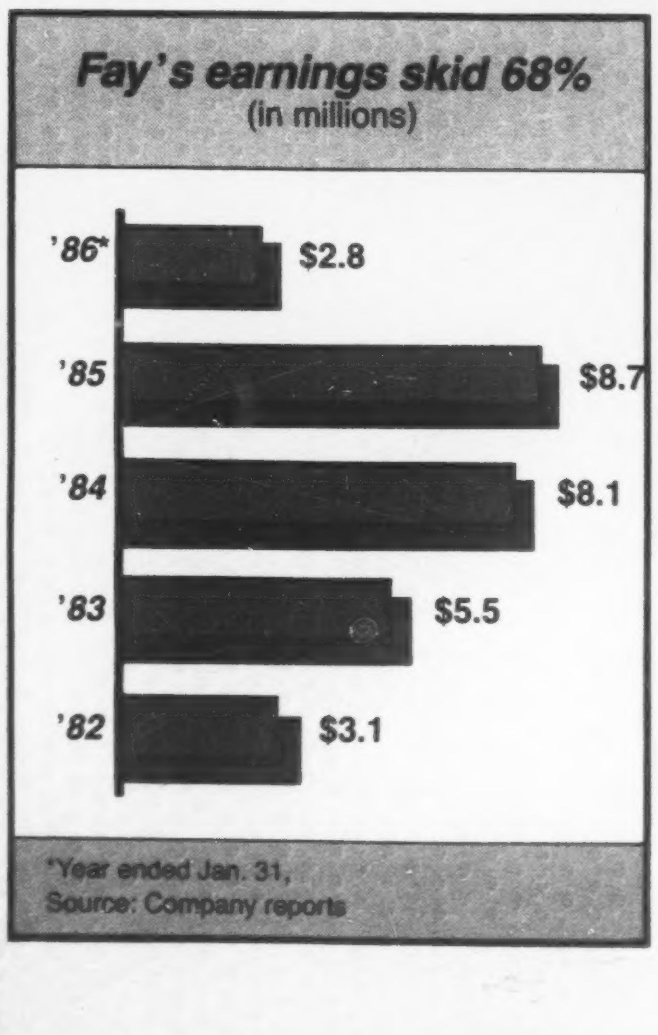
Not surprisingly, pharmacy continues to set a near 30% annual sales growth pace—given the extensive advertising efforts to promote its Accu-Fay's pharmacy computer system. A mature Fay's store fills 1,200 prescriptions a week, about 30% greater than the industry average.

Together, pharmacy and H&BA account for 40% of drug store sales. High-margin H&BA will be expanded this year at the expense of consumer electronics, personal care and traffic appliances, Panasci said recently.

Fay's may also raise gondolas to 60 in. from 54 in. in some of its smaller stores. Chainwide, Panasci will attempt to keep a leaner inventory posture, he said.

Calling Fay's three-pronged growth plan—drug stores, Wheels and Paper Cutter—"a full plate already," Panasci said "deep discounting is on the shelf. We aren't interested now in re-entering that business, or any other specialty ventures."

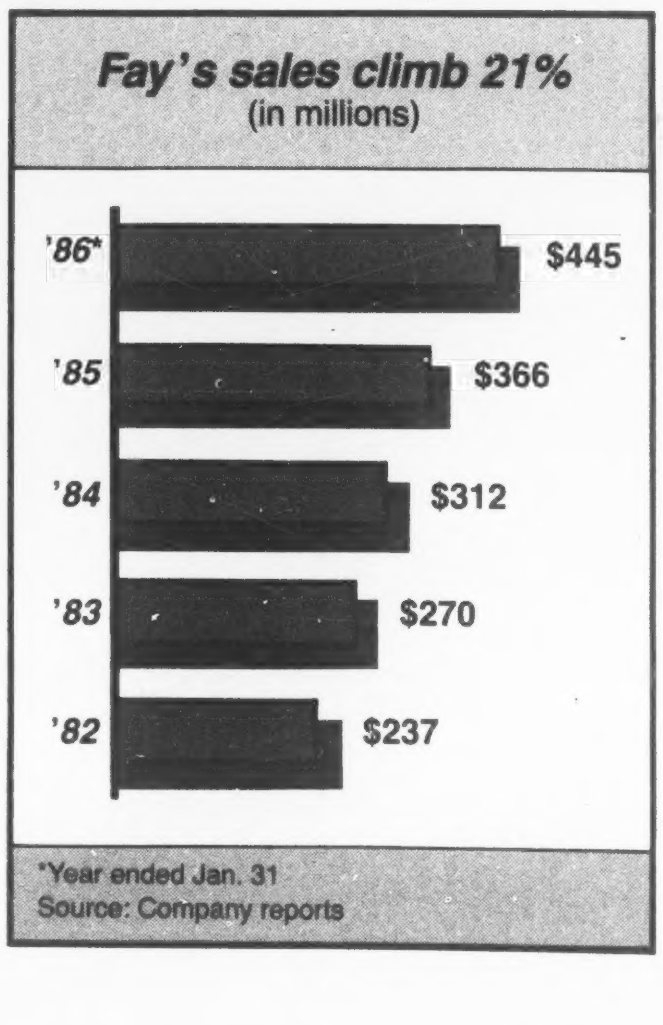
Fay's closed Jay Jay's, its deep discounting test, last spring after seven months of operation, then renovated the site into a Wheel and a Paper Cutter store.


Fay's earnings skid 68%
(in millions)

*Year ended Jan. 31,
Source: Company reports

Fay's DRUGS
EGG KIT 69¢
SOAP 39¢
TISSUE 1.04
Q-TIPS 1.19
MUFFINS 89¢

Fay's brought prices up in most markets later in 1985, after chainwide gross margins fell about 2½ percentage points through the first nine months.


Fay's sales climb 21%
(in millions)

*Year ended Jan. 31
Source: Company reports

PROFILES

SPECIAL 89
SPECIAL 99
JEWELRY CHEST

The Pay 'n Save prototype features promo tables called Z tables (named after William Zimmerman), which feature hot-priced—but good margin—merchandise.

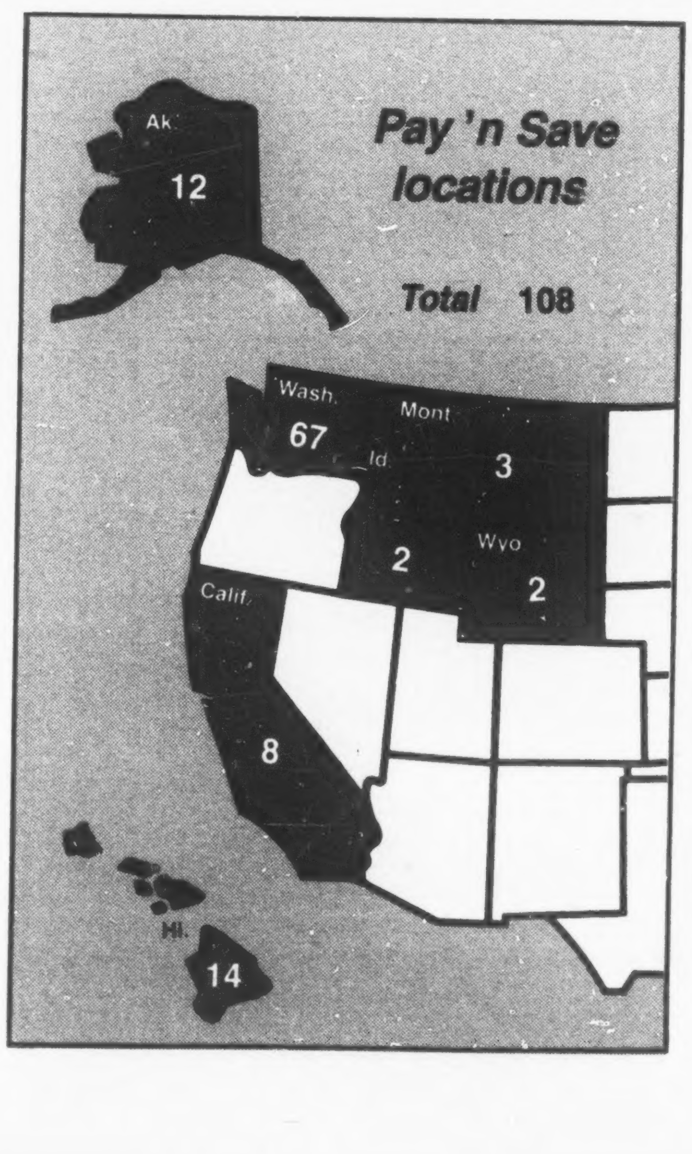
New prototype is at heart of Pay 'n Save changes

Format sports a 'stadium' look

SEATTLE — The Pay 'n Save corporate umbrella has been shrinking amid a rain of change. Today, only the 108-store Pay 'n Save drug store division carries the Pay 'n Save logo—but even this division has not escaped change. Late in 1985, William Zimmerman, former guiding force at 95-store Pic 'n Save, bought a 50% partnership in Pay 'n Save drug stores.

Two other corporations have been spun off by the Trump Group, which bought Pay 'n Save in a leveraged buyout in 1984.

One is Northern Pacific Corp., which controls Bi-Mart discount drug stores, Schuck's Auto Supply and Lamonts Apparel. The most recent—Seattle Standard Corp.—encompasses Ernst Home Centers, Yard Birds and Northwestern Drug, the wholesaler.



Name changes aside, the major shift is taking place at Pay 'n Save Drug stores, where a new prototype has emerged.

The prototype features a race track layout and a "stadium" look (layered gondolas that radiate from the center of the store for total visibility); anywhere from 10 to 50 6x3-ft. promo tables, called Z tables (named after Zimmerman, who used them at Pic 'n Save with telling effect); introduction of apparel (two 28-ft. facing fixtures plus garment-rack ends); direct buying of imports rather than from importers; photo department in a bullpen rather than on a straight line; and more flexible pegged cosmetic wall sections.

The sizzle for the new layout is the promotional tables, which feature hot-priced—but good margin—merchandise. Not only is the promo presentation geared for excitement, but it also is expected to funnel traffic into drug store departments. The payoff, of course, is that promo margins of 50%-65% will offset lower margins in H&BA and drug-related items, thereby boosting overall store profits.

The key elements of the prototype will be incorporated into the new Pay 'n Save stores, starting in 1987.

To reclaim some of the space lost to the promo tables, perimeter gondolas have been raised to 96 in., unneeded sizes have been cut, and duplication has been eliminated. In addition, air space between the shelves has been squeezed, and as much merchandise is not stocked on five gondola sides as was formerly stocked on seven. Also, cornices on the wall have been extended to accommodate bulk storage goods.

Even the color scheme has been changed: from rust brown and burnt orange to tinted blues, greens and grays.

In tandem with remerchandising of the drug stores is the conversion of Pay 'n Save's distribution center (350,000 sq. ft., including mezzanine) into a centralized state-of-the-art facility. The retrofitted center will be ready in May and will be tested for a month before going full speed.

Before the conversion, Pay 'n Save's warehouse was a break-and-go operation. Outside of storing imports and ad specials, the manual operation consisted of receiving goods in a large unit and then breaking into individual-store shipments.

The newly designed center is expected to benefit Pay 'n Save's distribution and buying operations. It will give the division more buying leverage and enable it to take advantage of more end-to-end deals as well as two-for-one deals.

Heading the distribution center task force is Al Culver, president, and Bud Semco, who teamed up to build Pay Less' DC in Wilsonville, Ore. Wilsonville is rated as a model of its kind and vital profit contributor to the chain, now owned by K mart.

Leased warehouse

Until the Pay 'n Save facility in Auburn is completed, the chain has leased a 100,000-sq.-ft. freestanding warehouse in Kent, four miles away, to maintain the momentum of its promo program.

There has also been a significant change in corporate goals. Almost from the day the Trumps took over, there have been rumors that Pay 'n Save would sell each of its divisions piecemeal. The Trump Group did little to discourage that kind of talk. In fact, last year a Trump official said that "consistent with our strategic plan, it is true that we are considering the possible sale of one or more of the corporation's companies."

However, it is now believed that with the restructuring, Trump will stay the course. A tipoff is that Trump recently took the "for-sale" sign off Northwestern Drug, after FoxMeyer came close to acquiring the drug wholesaler last December.

Even though Pay 'n Save is one of seven divisions, the Trump Group is banking heavily on its drug stores to lead the corporation to the land where the profit-poppies grow.

PROFILES

SDM targets growth in Canadian drug market

TORONTO — Shoppers Drug Mart may hold a commanding 28% share of the Canadian drug store market, but its chief exec is still not satisfied.

David Bloom, president of the 431-store drug chain, wants to boost that slice of the pie to 32%-35%. Indeed, he thinks it may be possible to go even higher.

What Bloom has in mind is eventually adding another 200, or perhaps even 300, Shoppers Drug Mart stores to the 385 already in operation. Beyond that, he is looking to expand the other weapons in his retail armamentarium as he continues SDM's all-out assault on the Canadian market.

"Our objective is to increase our productivity in every way possible."

David Bloom
president
Shoppers Drug Mart

"Our objective is to increase our productivity in every way possible," he said.

Among the other retail operations on which Bloom is pinning his hopes are: "Howie's—more than a drug store," Shoppers' deep discount stores in English-speaking areas; Pharmaprix, the conventional stores in French-speaking communities; Pharmaprix Carnaval, the French-speaking version of Howie's; Shoppers Drug Mart Food Baskets, conventional drug stores with expanded convenience food departments; and Shoppers Drug Mart/Home Health Care centers.

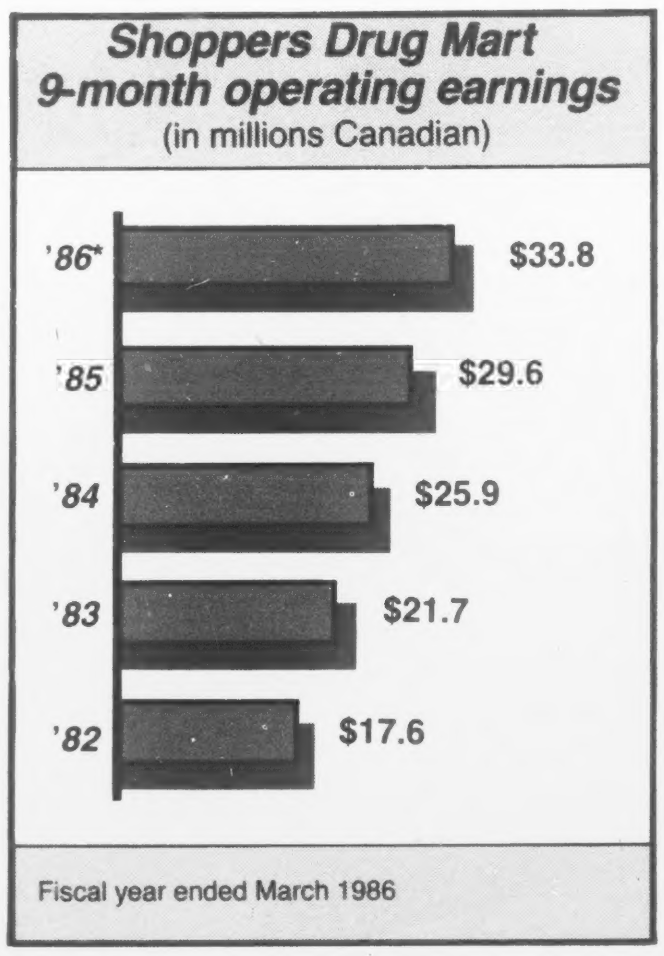
In its 25th anniversary year, SDM is looking at acquisitions as well as new store launches in its efforts to grow.

In the nine months ended Dec. 31, SDM added a total of 19 new stores, including three Howie's. At year-end, there were 38 Pharmaprix, three Pharmaprix Carnaval and five Howie's, in addition to 385 SDM's.

Shoppers is expected to generate about $1.8 billion (Canadian) for the fiscal year ended March 31, 12% higher than the previous year.

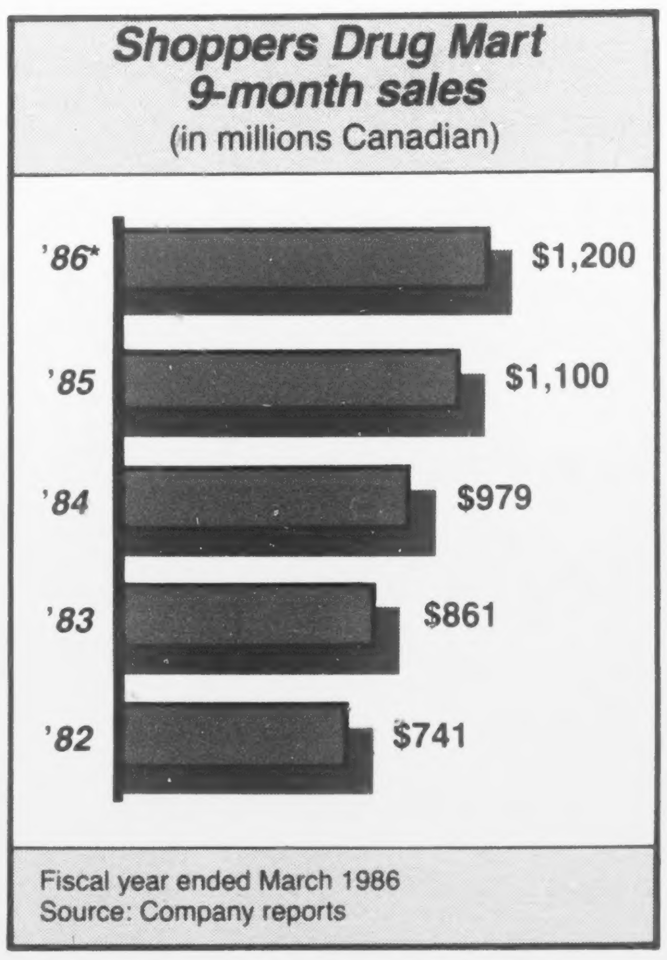
Systemwide sales for the nine months already announced were $1.2 billion, an increase of 15% over the comparable year-earlier period. Revenue for the period, which includes franchise fees and other income but not total sales, were up 14% to $58.1 million. Operating earnings for the nine months rose 14% to $33.8 million.

The company said the performance was the result of a "combination of strong comparable store sales increases, the effects of productivity improvement programs and innovative marketing and advertising campaigns." SDM said it expected the strong earnings growth to continue in the fourth quarter and to exceed its goal for the year.



Shoppers Drug Mart
9-month operating earnings
(in millions Canadian)

Fiscal year ended March 1986



Shoppers Drug Mart
9-month sales
(in millions Canadian)

Fiscal year ended March 1986
Source: Company reports

With its five Howie's and three Pharmaprix Carnavals, SDM is fast becoming a leader in the North American deep discount arena. Bloom says the company is "very pleased" with the performance of the deep discount stores, and adds that there may be room in Canada for a total of 25 Howie's and an unspecified number of Pharmaprix Carnavals.

He points out that Howie's has higher sales per square foot than any other deep discounter, including those in the United States.

To assure continuing growth, SDM has created a new post of retail development. Irving Bain, former executive vp-marketing, has been named to head the operation. Bain's responsibility will be to explore "new revenue and business opportunities for Shoppers," says Bloom.

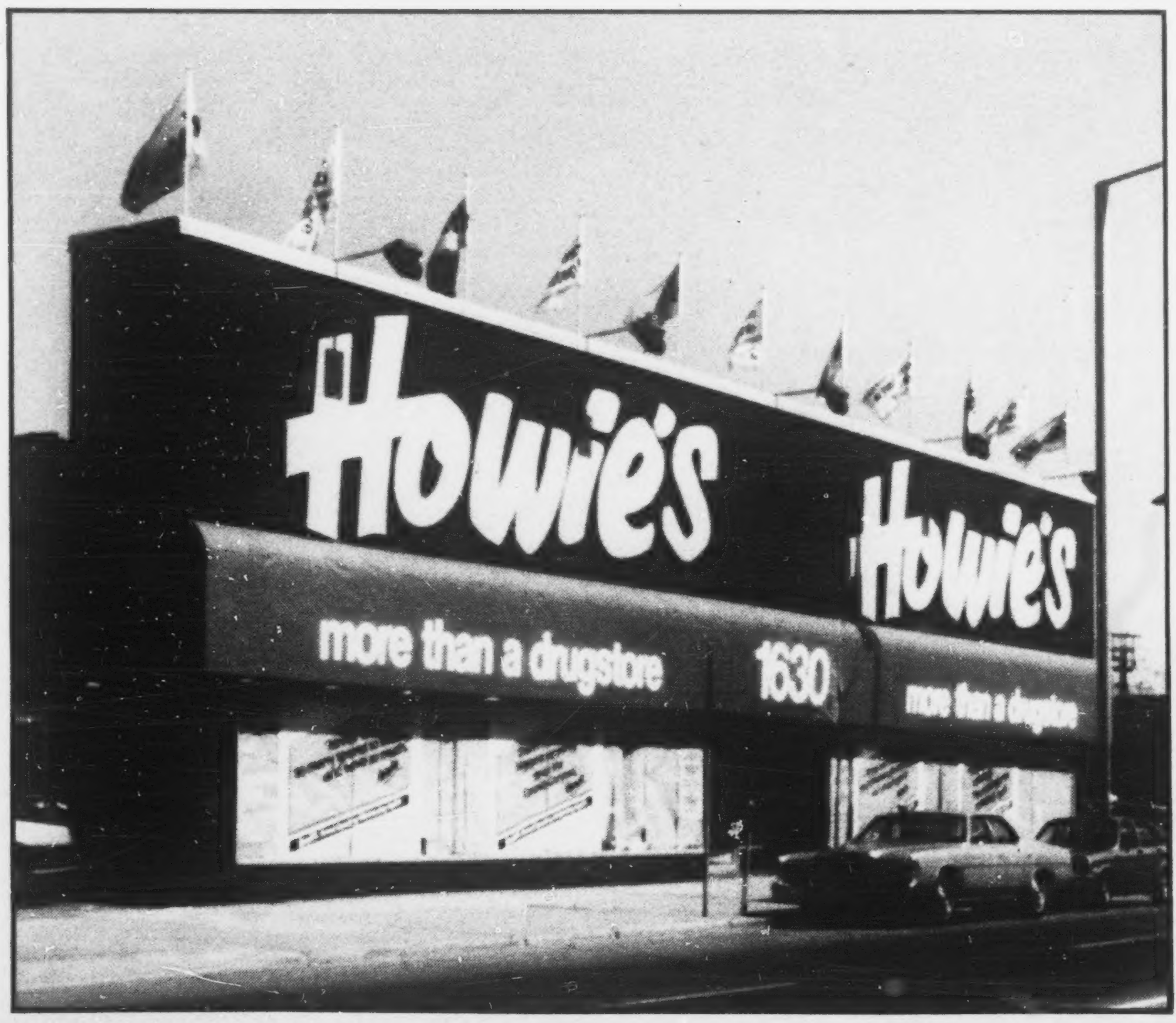
In another executive change, Stan Thomas was appointed senior executive vp-marketing.

Other growth opportunities for Shoppers include SDM's with convenience food stores. These Shoppers Drug Mart/Food Basket units are 8,000-9,000 sq. ft., compared to SDM's 7,500-sq.-ft. prototype. The food department typically adds about $500,000 a year to a store's revenues.

SDM plans to open at least 50 SDM/Food Baskets in the next two years. The company also intends to open 20 home health units during the same period as part of its "aggressive expansion plan" for the home health market.

In another move to boost the company's productivity, Shoppers last year turned over 31 Florida drug stores to its sister drug chain, Peoples Drug Stores. The Florida stores were never able to achieve the success of those in Canada, and it was felt that Peoples, with its experience in the American market and on the Atlantic Seaboard in particular, would be able to do what SDM had not. Indeed, Sheldon Fantle, Peoples' chairman, says the chain has a rapid expansion plan in mind for the Florida division.

Shoppers thus closed the books on its U.S. operations, having sold off its Washington state stores to Bartell Drug more than a year ago.



Shoppers Drug Mart believes there may be room in Canada for 25 Howie's deep discount stores.

Thank you for shopping Shopp
life towelettes
99
cashier
pampe
8

Shoppers Drug Mart, Canada's leading drug chain with 28% of the country's drug store revenues, celebrated its 25th anniversary in 1985.

INSIDE PHARMACY

Antidepressant tied to nondiet weight loss

By Marjorie Shaffer

INDIANAPOLIS — Like the wonder drug Peptide-7, which catapulted the fictional Felding-Roth Pharmaceuticals into the black in Arthur Hailey's bestseller *Strong Medicine*, Eli Lilly's Prozac is having a phenomenal impact on the company's stock.

On one day of heavy trading last month, Lilly's stock soared $7.75 to $67 on the New York Stock Exchange—an increase in the firm's market value of $1.1 billion. The stock closed at $70.13 April 3.

What sent Lilly's stock through the roof was the prominent treatment the company gave Prozac (fluoxetine), an as yet unapproved antidepressant treatment, in its annual report. It seems the drug not only is an effective antidepressant but has the surprising effect of making people shed pounds without dieting.

And Lilly, awaiting FDA approval of the drug as an antidepressant, mentioned in the report that in clinical trials of 900 obese people taking Prozac, weight was lost without dieting.

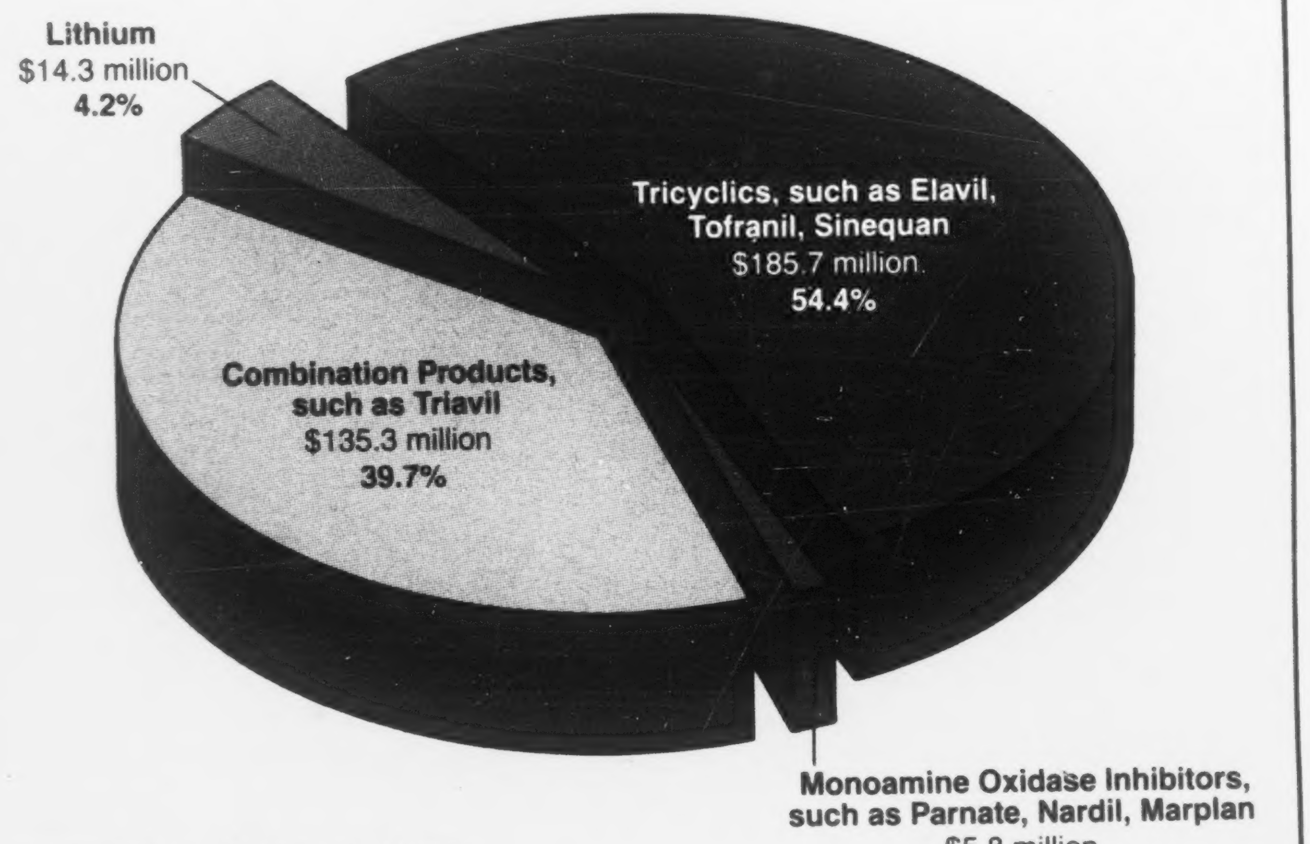
That information was communicated by Goldman Sachs analyst Frederic Greenberg and picked up by the Dow Jones News Service. And on that report, Lilly's stock soared.

Often in the drug business, a drug's effects are a matter of serendipity. Like the fictional Peptide-7, developed to prevent the onset of Alzheimer's disease, but which also made people lose weight and was an aphrodisiac to boot, Prozac was developed as an antidepressant. However, through re-

See **Weight,** *page 190*

Antidepressants top $340 million in pharmacy sales

Major categories



Source: PDS, a subsidiary of McKesson
Data reflects pharmacy sales for 1985.

OTC tamperings spur bills to restrict cap sales

WASHINGTON — The recent episodes of over-the-counter drug tamperings have triggered a flurry of state legislative proposals to restrict, if not outlaw, OTC capsule sales altogether.

While most of the new bills are designed to limit access to nonprescription capsules, Senate and Assembly bills introduced in New York (S.B. 7779, A.B. 9514) call for an outright ban on OTC medications in capsule form. Under the identical bills, now being reviewed by state health committees, "No substance contained in capsules and intended for human ingestion" can be sold except drugs for which a prescription is required. The proposed laws also provide for exceptions in the case of emergency situations or procedures.

Legislation is also being suggested at the county level in New York. Erie County's executive has asked the Health Department and Board of Health to review the possibility of a countywide ban on the sale of OTC capsule medications. Moreover, New York City's Long Island suburban

See **Tamperings,** *page 190*

PPO pact triggers suits

HealthAmerica sues Gray Drug

CLEVELAND — HealthAmerica Corp. of Ohio, an HMO, filed a $3.5 million lawsuit against Gray Drug Inc., alleging it misled the public and violated HealthAmerica's trademark and logo.

The suit, filed in U.S. District Court in Cleveland, was in response to a similar lawsuit filed by Gray last month, accusing HealthAmerica of backing out of a contract that named Gray as one of its preferred provider organizations (PPO).

Both lawsuits arose out of an announcement by HealthAmerica in February that it would enter into an exclusive contract with Revco Drug Stores to provide prescription services to its approximately 90,000 enrollees.

HealthAmerica's suit attacked several actions taken by Gray Drug following the Revco contract announcement.

Gray took out ads alleging that HealthAmerica's actions were "misleading" and saying that the chain would continue to fill prescriptions for HealthAmerica customers. The ads said that all customers needed to do was pay the normal deductible fee assigned to their plan.

To accomplish this, Gray had HealthAmerica customers sign a log that assigned Gray permission to collect monies from HealthAmerica for them.

In its lawsuit, HealthAmerica accused Gray of conducting an "unlawful disinformation campaign" and asked the court to make Gray stop using the HealthAmerica trademark on forms it handed out to its customers.

Gray officials were reviewing the lawsuit at presstime and could not comment on its contents.

In the suit filed against HealthAmerica, Gray asked for compensatory damages of $1.5 million and accused HealthAmerica of "intentionally shielding negotiations over new contracts from the public's scrutiny by not ac-

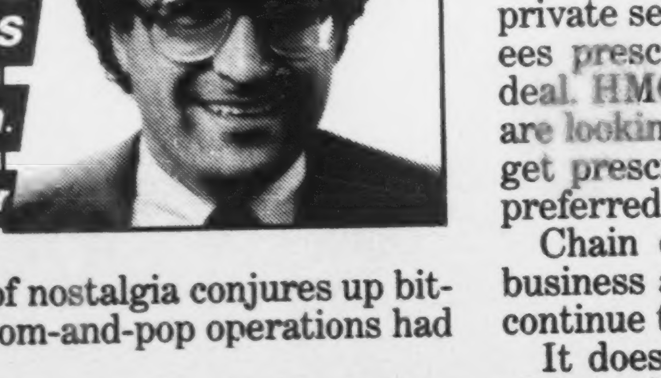
See **Gray,** *page 190*

Rx'ers finally realizing PPO's are open to all

Cohen's Capsules

Harold Cohen, R.Ph.

Pharmaceutical Editor



Filling third party prescriptions is a lot like taking medicine . . . you know it's probably good for you, but it is kind of hard to swallow.

Unfortunately, I remember "The Milton Berle Show," soda in glass bottles that needed a bottle opener, 8-cylinder cars, and pharmacy when it was a cash-only business.

As the first Medicaid prescriptions began to roll in, I can recall the negative vibes they created between the pharmacist and the patient. We resented taking the extra time (for what seemed an eternity) to handwrite a Medicaid reimbursement form and waiting sometimes as long as three months for our money. A resentment that is still felt today, after almost 30 years, in many drug stores.

Pharmacists around the country rallied to the cause by holding local association meetings. Many of those meetings were held after working hours; for many of us, that meant 10 p.m., when a day's worth of filling out Medicaid forms and seeing no money in the cash register was still very fresh in our minds.

For many, this kind of nostalgia conjures up bitter memories. Many mom-and-pop operations had to shut their doors.

Here it is 1986, and the very thing we feared for so many years has become a way of life in pharmacy. After all those years, nobody has been able to put the brakes on encroaching third-party prescriptions, and that fact has changed the way pharmacy is practiced today. To you old-timers, don't feel too bad—it was beyond you, me, or anyone.

But somewhere along the way, pharmacists, especially among the chains, began to accept third-party prescriptions for what they are, a way to increase traffic flow into the drug store.

Medicaid has spawned a host of imitators in the private sector. Big corporations that offer employees prescriptions plans are looking for the best deal. HMO's that do not have in-house pharmacies are looking for outlets to send their patients to, to get prescriptions filled (commonly referred to as preferred provider organizations, or PPO's).

Chain drug stores have actively pursued the business after realizing that third-party will only continue to grow.

It does my heart good to see that community pharmacists are also getting into the act, instead of sitting back until it's too late.

With all the changes taking place in the way pharmacy is practiced, I feel good once again about the profession. I think pharmacy is on the right track, the one leading back to profits and professionalism.

Gray

Continued from page 173

cepting bids or proposals from competitive businesses.

HealthAmerica maintains it was under no obligation to discuss the contract with anyone else because it had struck a deal with Revco.

Gray Drug claimed in its suit that the Revco-HealthAmerica arrangement did not have the approval of the Ohio superintendent of insurance.

Weight

Continued from page 173

search, it began to emerge that this drug had a variety of effects, through its selective inhibition on the brain's uptake of serotonin, a brain chemical linked to depression.

According to Lilly, Prozac may be useful in treating a number of conditions, including obesity, alcoholism and pain.

Drug expert Lynne Pauls of E. F. Hutton, New York, said the drug could be approved this year. She noted that the side effects in depressed patients range from nausea in about 25% to nervousness and anxiety in about 15%-25%. She had not yet seen any reports on side effects from clinical trials with the drug in obese patients.

"The big question is whether the side-effect profile is clean enough for the drug to be used in healthy people who have to lose weight," said Pauls.

In the last three years, Lilly pumped over $1 billion into research and development. Last year, R&D accounted for 11% of sales.

Tamperings

Continued from page 173

Suffolk County is considering an ordinance requiring retailers to ensure that OTC capsules are not "readily accessible" to the public.

Illinois, the first state to introduce legislation after the recent Tylenol incident, is considering a House bill (H.B. 2716) that would require retail sales of nonprescription caps to be handled by pharmacists.

Pennsylvania lawmakers are considering legislation to require OTC capsules to be stored "behind the counter."

Healthy Profits From...
allerest®

allerest sinus pain formula
allerest
Sweepstakes

Where Fresh Ideas Grow!

Network Television

During the peak allergy season Allerest impacts big on such shows as:
"CBS Network News"
"The Tonight Show"
"Nightline"
"David Letterman"

Plus spot television. Over 940 million impressions!

NBC CBS ABC

National Consumer Sweepstakes

All expense paid trip, cash, and other exciting prizes. Entry blanks in over 2 million specially marked packages.

Newspaper Couponing

Here's to Your Health! Sweepstakes FROM allerest
Here's your chance to WIN!
SAVE 25¢

Free Standing Sunday Newspaper Inserts will reach 37 million potential customers with high redemption coupons at the height of the season.

Trial Sizes and Bonus Packs

Special sizes packed with 50¢ coupons to generate trial and repeat purchase.

Direct Mail Consumer Sampling

National sampling directly to consumers to stimulate trial.

Over 3 Million High Value In-Pack Coupons

50¢ in-pack coupons generate increased sales and repeat purchases.

Trade Promotion

Generous promotional allowances plus extended dating.

PENNWALT CORP.
PHARMACRAFT DIVISION
Rochester, N.Y. 14623

allerest sinus pain formula
MAXIMUM STRENGTH RELIEF
FAST RELIEF
EYE DROPS
12 hour allerest
New! 12 hour relief from hay fever and allergies, running nose, sneezing, itchy and watery eyes, and nasal congestion.
Effective Allergy Medicine For Children.
EFFECTIVE RELIEF
headache strength allerest

The
Biggest
Line
for the
Biggest
Profits